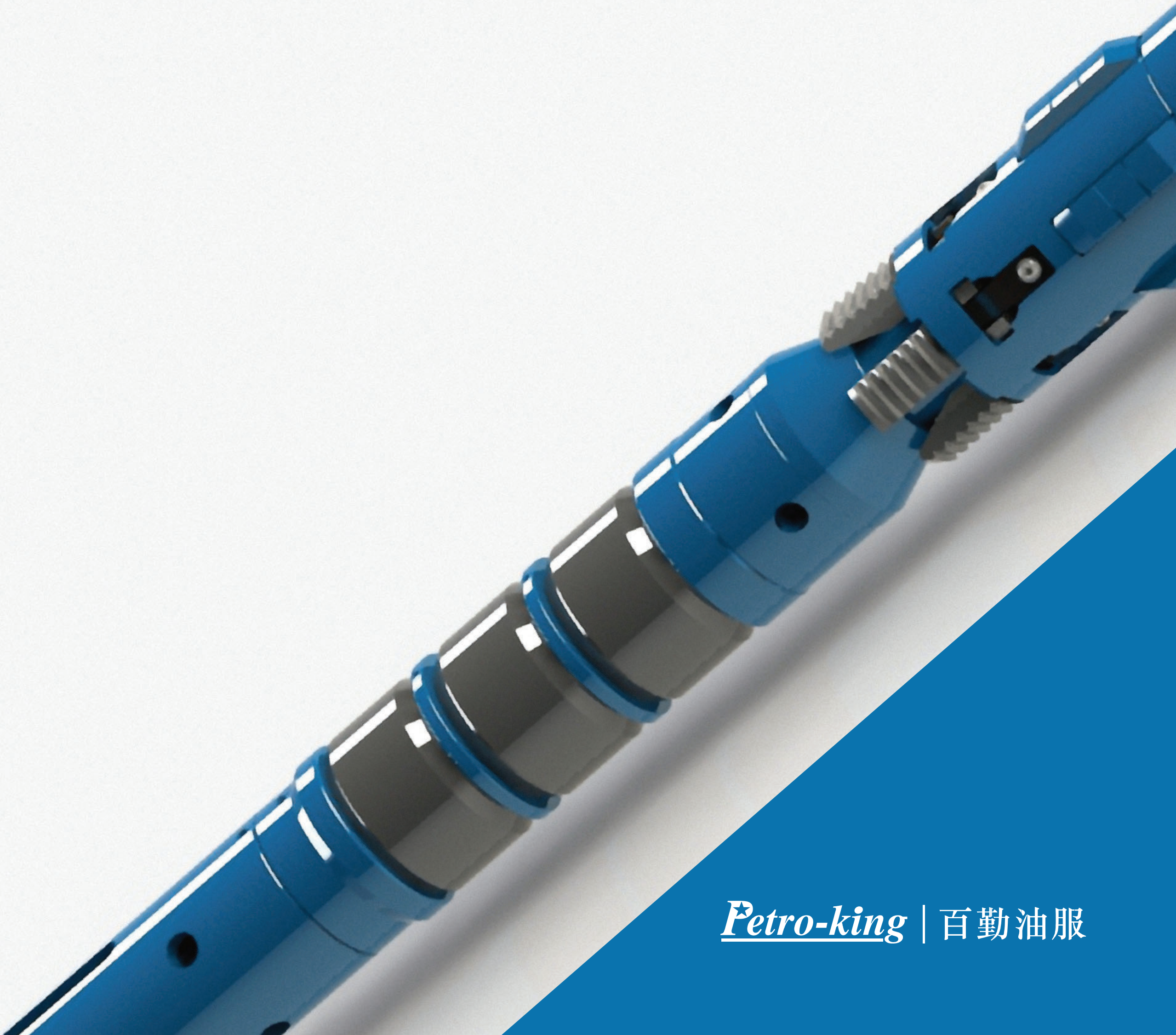
2016

Annual Report

PETRO-KING OILFIELD SERVICES LIMITED

(Incorporated in the British Virgin Islands with limited liability)

Stock Code: 2178



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FINANCIAL HIGHLIGHT

Operating Figures

For the year ended 31 December	2016	2015	Change	2014	2013	2012
	HK$	HK$		HK$	HK$	HK$
Revenue	**392,442,000**	631,014,000	-38%	705,172,000	1,060,435,000	1,106,333,000
Operating (loss)/profit	**(416,882,000)**	(344,188,000)	21%	(398,000,000)	259,705,000	194,084,000
(Loss)/profit for the year	**(445,347,000)**	(391,759,000)	14%	(418,148,000)	210,506,000	184,691,000
(Loss)/earnings per share						
Basic (HK$ cents)	**(29)**	(31)	-6%	(38)	20	23
Diluted (HK$ cents)	**(29)**	(31)	-6%	(38)	20	23

Consolidated Statement of Financial Position

As at 31 December	2016	2015	Change	2014	2013	2012
	HK$	HK$		HK$	HK$	HK$
Total assets	**1,723,508,000**	2,500,519,000	-31%	3,162,095,000	2,849,166,000	1,832,336,000
Non-current assets	**979,999,000**	1,497,705,000	-35%	1,563,767,000	893,917,000	741,629,000
Current assets	**743,509,000**	1,002,814,000	-26%	1,598,328,000	1,955,249,000	1,090,707,000
Total liabilities	**486,828,000**	921,215,000	-47%	1,367,167,000	623,599,000	741,497,000
Non-current liabilities	**184,390,000**	185,992,000	-1%	55,458,000	14,589,000	11,821,000
Current liabilities	**302,438,000**	735,223,000	-59%	1,311,709,000	609,010,000	729,676,000
Net current assets	**441,071,000**	267,591,000	65%	286,619,000	1,346,239,000	361,031,000
Net assets	**1,236,680,000**	1,579,304,000	-22%	1,794,928,000	2,225,567,000	1,090,839,000

Financial Indicators

For the year ended 31 December	2016	2015	2014	2013	2012
Trade receivables turnover days	**405**	279	461	285	165
Inventories turnover days	**457**	505	552	268	90
Trade payables turnover days	**467**	347	334	225	86
Current ratio	**2.46**	1.36	1.22	3.21	1.49
Gearing ratio *(Note 1)*	**10%**	10%	21%	N/A	5%
Return on Equity *(Note 2)*	**-32%**	-23%	-23%	13%	18%

Note 1: Based on net debt over total capital.

Note 2: Based on the loss/profit for the year over the average of the total equity at the beginning and end of the financial year.

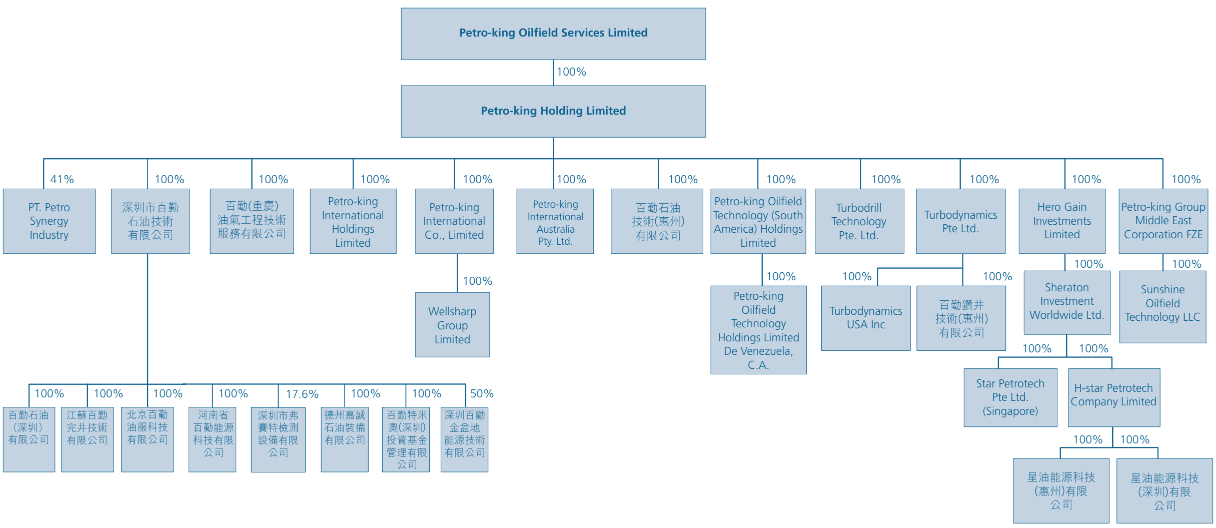
CORPORATE PROFILE

Petro-king Oilfield Services Limited (the "**Company**", together with its subsidiaries, the "**Group**", "**we**" or "**our**") (stock code: 2178) is a leading independent China-based provider of high-end oilfield services.

We provide high-end services and products across various stages in the life of an oil or gas field, including the provision of services in well evaluation and appraisal, drilling, casing, well completion, well production, well workover, production enhancement and well abandonment, as well as the supply of oilfield services tools and equipment. Amongst our available services, we principally focus on the provision of oilfield technology and oilfield services covering various stages in the life of an oilfield including drilling, well completion and production enhancement with ancillary activities in trading and manufacturing of oilfield services related products.

Since our inception in 2002, we have provided services/products to customers located in various regions/countries in the world, including China, the Middle East, Russia, Australia, Canada, South America, Singapore, Indonesia, Taiwan, Kazakhstan, Kyrgyzstan, Turkmenistan, the Republic of Trinidad and Tobago and the Gabonese Republic.

CORPORATE STRUCTURE



CHAIRMAN'S STATEMENT

WANG JINLONG
Chairman

On behalf of the board of directors (the "**Board**") of the Company, I am pleased to present to the shareholders of the Company (the "**Shareholders**") the annual report of the Group for the year ended 31 December 2016.

RESULTS

Amidst the general slowdown in exploration and production ("**E&P**") investments by most oil and gas operators that led to the low level of oilfield service activities, the Group's revenue in 2016 declined by 38% to HK$392.4 million, from HK$631.0 million in 2015. The Group's operating costs amounted to HK$811.2 million in 2016, down by 17% compared with that HK$975.8 million in 2015. The Group recorded an operating loss of HK$416.9 million in 2016, representing an increase of 21% compared with the operating loss of HK$344.2 million in 2015. The Group's net financing cost decreased by 50% to HK$24.1 million in 2016, from that of HK$48.1 million in 2015. During the year, the Group recorded a net loss of HK$443.4 million attributable to owners of the Company, up by HK$59.1 million or 15% compared with that of HK$384.3 million in 2015.

As part of the operating costs, the Group's impairment loss of goodwill amounted to HK$213.9 million in 2016 (2015: Nil). The Group's operating costs, excluding the impairment loss of goodwill, amounted to HK$597.3 million in 2016, representing a decrease of HK$378.5 million or 39% compared with that of HK$975.8 million in 2015.

Year 2016 remained challenging for the oilfield service industry. The E&P industry found itself mired in the deepest financial crisis, low profitability and uncertainty in cash flow made most oil and gas operators take cautious approaches to both capital and operating expenditure planning, such as postponing investments in exploration, curtailing development activity and squeezing service industry prices. As a result, the oilfield service providers suffered as much as the oil and gas operators. Most of the oilfield service providers were forced to offer discounts when negotiating contracts with the E&P operators in order to stay competitive. Our 2016 results showed that the Group had experienced another challenging year marked by lower activity levels and continued downward pressure on pricing in both the China market and the overseas market.

During the year, the Group continuously conducted special financial risk management plans to cope with the industry downturn, enhanced our financial position and further reduced our bank and other borrowings. At the same time, the Group has been seeking advancement in organisational structure and management performance, focusing on intrinsic improvement in operational performance and overall long-term competitiveness. The Group took the following measures in 2016:

- Reviewed the Group's organisational structure and streamlined the operational management mechanism and the cost structure of all service lines and supporting departments.

- Adjusted the proportions of various regions in the China market and the overseas market and reallocated the Group's resources, including the members of the marketing and sales team, oilfield service equipment and the member of the engineering team, among various regions.

- Further deleveraged to minimise the financial distress risk and took a conservative approach to cash flow management.

THE CHINA MARKET

The downturn of the China oilfield service market has lasted for more than two years after the market hit its peak in early 2014 in the midst of shale gas boom. As there was a significant reduction in oilfield service equipment investments in the sector as well as the massive redundancy plans from nearly all of the industry participants, the oilfield service providers were still under tremendous pressure to tackle the issues of profitability and operating cash flow when negotiating and executing contracts in the current sluggish market environment.

Oilfield service activities in the China market remained at a relatively low level in 2016. The weak international oil price continued to impact the industry in both volume and price. Major national oil companies ("**NOCs**") as well as other domestic oil and gas operators (especially those new investors in unconventional upstream projects, such as shale gas and coal bed methane), continued to take a "wait and see" approach. Delaying or halting investments were common in most of the oil and gas operators due to the uncertainty over profitability as well as tight cash flow situation. The China market began to show signs of recovery in E&P activities in certain areas in the fourth quarter of 2016. However, successful biddings still require a high standard of technical expertise with very competitive pricing, and as such, margin of such projects are still at a relatively low level.

Due to the weak market environment, delays in project execution and trade receivables settlement are still common in the oilfield service sector in China. By taking a strategy of prudent working capital management during this long industry downturn cycle, the Group tightened the customer credit control policy and rejected certain business opportunities due to uncertainty over collection of trade receivables. Nevertheless, the Group's self-developed tools and technologies have received further recognition from the market. During the year, revenue from sales of completion tools to oilfield service providers or agents contributed a significant part of the Group's revenue in the China market.

THE OVERSEAS MARKET

Similar to the China market, most of the international oil and gas companies were also delaying or halting their E&P investments due to the continuous weak oil price in 2016. There was a massive capacity reduction in the oilfield service industry globally. It is widely believed that the E&P investment cuts will soon lead to the decline in production of these oil and gas operators and the decline in volume of the oilfield service activities are likely to be temporary issues.

As a result of the slow-down in E&P activities of the Group's major customers and the downsizing of the Group's certain overseas operations, the Group experienced a decline in revenue from the overseas market in 2016.

During the year, the Group focused on market reassessment and restructured its marketing and sales team as well as its service capacity in various regions in the overseas market, including expansion of the Middle East market. Although the overall development of its overseas market development was at a relatively slow pace, the Group's business strategy and market development in the Middle East continued to progress well in 2016.

The low oil price and the industry downturn made most of the oil and gas companies more cost-conscious than before. To make use of this industry downturn and leverage the Group's reputable team of professional engineers, especially the excellent track record in handling complicated oilfield service projects in the Middle East, we expanded the marketing and sales team in the Middle East and have been proactively seeking new business opportunities in certain Gulf Cooperation Council countries. We are expecting further penetration in the market of certain major oil and gas operators in the Middle East by offering price competitive technologies and services.

OUTLOOK

The reaching of an agreement in production cut among Organisation of the Petroleum Exporting Countries (OPEC) in November 2016 is likely to accelerate the correction of the crude oil supply-demand imbalance and thus lead to a major rebound in international oil price. The Brent crude oil price has rebounded by more than 100% to about US$57 a barrel in December 2016, from the cyclical low of about US$28 in January 2016. It is widely believed that the production cut will support a oil price recovery in 2017. According to a market consensus from Bloomberg, Brent crude oil price is estimated to reach US$59 a barrel in the fourth quarter of 2017 and gradually increase to US$67.5 a barrel in 2020. As such, we believe that 2016 might be the bottom of the downturn, and the oilfield service industry is likely to walk out from the cyclical bottom in 2017.

In January 2017, the central government of China published the 13th Five-year Plan for Energy Development, which set a national gas consumption target of more than 360 billion cubic metres by 2020, and targeted gas consumption to account for 8.3% to 10% of the nationwide energy consumption. This implied compound annual growth rate of 13% in the country's gas demand from 2017 to 2020. On the other hand, China has set the annual crude oil production target of about 200 million tons in 2020, which is below the 214 million tons produced in 2015. In light of the recent development in the country's energy consumption plan, we believe that the gas related E&P activities in China will present opportunity for business growth of the Chinese oilfield service companies in the coming years.

In the past two years, the Group took a proactive approach to cope with the industry downturn, such as downsizing certain service lines; downsizing the operations to a minimal level in Venezuela; reducing headcount and implementing certain cost control measures. The Group also tightened up its credit policy. There were other measures taken by the Company, included raising capital in order to enhance the Group's financial position and repaying substantial part of the Group's bank borrowings in order to minimise the risk of financial distress. After taking all the abovementioned measures, we safeguarded our core expertise and competency and maintained the Group's status as a high-end oilfield technology and service company, while keeping the operating costs at a reasonable level.

In addition, we identified and capitalised on certain improvement opportunities by being willing to challenge our existing ways of management decision process and risk management mechanism and by actively seeking insight and learning good experience from those best companies in the oilfield service industry and other technology and service industries.

Having anticipated a recovery in the oilfield service sector in 2017, the Group started to expand its marketing and sales team in certain regions in the overseas market in 2016, and began to reallocate the Group's resources and service capacity to those markets that we believe will offer the Group more opportunities in forthcoming recovery in the industry, which has been widely expected by the market.

Looking ahead to 2017, the Group will refocus on its technology development and enhance its capability to provide high-end oilfield services in the China market and the Middle East market:

- Enhance the capability and capacity of its marketing and sales operations in the Middle East with the aim of acquiring new customers in the region.

- Co-operate with reputable Chinese drilling companies in the provision of integrated project management services in China and the Middle East markets.

- Enhance its tools and technologies through in-house research and development and through cooperation with oilfield service technology companies with the focus on high-end downhole drilling and completion technology.

- Transform the Group's human resource management system for the long term development of the talent of the Group's engineering team, and adopt a new performance based remuneration system encouraging team spirit and staff ownership.

We believe that the abovementioned action plans will further enhance the Group's capability to provide high-end oilfield services in both the China market and the overseas market for the long term. With these measures in place, the Group will be well-positioned to grasp business opportunities in the forthcoming recovery in the industry.

APPRECIATION

On behalf of the Board, I would like to express my sincere thanks to the Shareholders, customers and business partners of the Company for their continuous support. Also, I would like to take this opportunity to thank all our dedicated staff members for their valuable contribution during the year.

Wang Jinlong
Chairman

Hong Kong, 23 March 2017

GEOGRAPHICAL MARKET ANALYSIS

Set out below is the breakdown of revenue by geographical area:

	2016 *(HK$ million)*	2015 *(HK$ million)*	Approximate percentage change *(%)*	**Approximate percentage of total revenue in 2016** ***(%)***	Approximate percentage of total revenue in 2015 *(%)*
China market	**266.1**	309.2	-14%	**68%**	49%
Overseas market	**126.3**	321.8	-61%	**32%**	51%
Total	**392.4**	631.0	-38%	**100%**	100%

The Group's revenue from the China market dropped by HK$43.1 million or 14% to HK$266.1 million in 2016 from HK$309.2 million in 2015. In 2016, the overall E&P investments in the China market remained at a relatively low level due to the weak oil price. During the year, the Group's revenue from drilling, production enhancement and consultancy in the China market was significantly impacted due to the reduced E&P investment activities in the market and the postponement of projects' execution.

The Group's revenue from the overseas market dropped by HK$195.5 million or 61% to HK$126.3 million in 2016, from HK$321.8 million in 2015. The decrease in revenue from the overseas market was mainly due to the postponement of E&P investments and delay in projects execution by major customers in the Middle East and the substantial downsizing of the Group's business operations in other overseas regions for copying with the industry downturn in 2016.

REVENUE FROM THE CHINA MARKET

Set out below is the breakdown of revenue from the China market:

	2016 *(HK$ million)*	2015 *(HK$ million)*	Approximate percentage change *(%)*	**Approximate percentage of total revenue from the China market in 2016** *(%)*	Approximate percentage of total revenue from the China market in 2015 *(%)*
Northern China	**22.9**	73.7	-69%	**9%**	24%
Southwestern China	**33.1**	72.4	-54%	**12%**	24%
Other regions in China	**210.1**	163.1	29%	**79%**	52%
Total	**266.1**	309.2	-14%	**100%**	100%

In 2016, the Group's revenue from Northern China amounted to HK$22.9 million, down by HK$50.8 million or 69% from HK$73.7 million in 2015. During the year, the overall oilfield service activities, including production enhancement and drilling activities, from major customers in Northern China, continued to shrink due to their reduced E&P investment budgets, which led to a significant decline in the Group's revenue from this region.

The revenue from Southwestern China amounted to HK$33.1 million in 2016, down by HK$39.3 million or 54%, from HK$72.4 million in 2015. The decrease in revenue was mainly due to the decline in the production enhancement services in relation to unconventional gas projects.

The revenue from other regions in China amounted to HK$210.1 million in 2016, up by HK$47.0 million or 29% from HK$163.1 million in 2015. The increase was mainly attributable to the sales of the Group's self-developed completion tools in Eastern China.

REVENUE FROM THE OVERSEAS MARKET

Set out below is the breakdown of revenue from the overseas market:

	2016 (HK$ million)	2015 (HK$ million)	Approximate percentage change (%)	**Approximate percentage of total revenue from the overseas market in 2016 (%)**	Approximate percentage of total revenue from the overseas market in 2015 (%)
The Middle East	**118.3**	259.1	-54%	**94%**	81%
Others	**8.0**	62.7	-87%	**6%**	19%
Total	**126.3**	321.8	-61%	**100%**	100%

The revenue from the Middle East amounted to HK$118.3 million in 2016, down by HK$140.8 million or 54%, from HK$259.1 million in 2015. The decrease was mainly caused by the postponement of E&P investments by various major customers in the region and this led to a substantial decline in the Group's revenue from well completion services and drilling services in the region.

The revenue from other overseas regions amounted to HK$8.0 million, down by HK$54.7 million or 87% from HK$62.7 million in 2015. The decline in revenue was mainly due to the drop in revenue from production enhancement projects in Kyrgyzstan and Indonesia. During the year, the Group suspended its provision of services for a production enhancement project in Kyrgyzstan, to tackle the issue of slow progress in payment by such customer.

BUSINESS SEGMENT ANALYSIS

Set out below is the breakdown of revenue by business segment:

	2016 (HK$ million)	2015 (HK$ million)	Approximate percentage change (%)	**Approximate percentage of total revenue in 2016 (%)**	Approximate percentage of total revenue in 2015 (%)
Oilfield project tools and services	**340.8**	585.5	-42%	**87%**	93%
Consultancy services	**51.6**	45.5	13%	**13%**	7%
Total	**392.4**	631.0	-38%	**100%**	100%

In 2016, the Group's revenue from oilfield project tools and services amounted to HK$340.8 million, down by HK$244.7 million or 42%, from HK$585.5 million in 2015. The decrease was mainly due to the decline in service revenue from well completion projects, production enhancement projects and drilling projects in the Middle East, China and Kyrgyzstan as discussed above.

The Group's revenue from consultancy services amounted to HK$51.6 million in 2016, up by HK$6.1 million or 13%, from HK$45.5 million in 2015. This increase was mainly attributable to the service revenue generated from the provision of early-stage project management and planning services for a key customer in the Middle East.

Oilfield Project Tools and Services

Set out below is the breakdown of revenue from the oilfield project tools and services:

	2016 (HK$ million)	2015 (HK$ million)	Approximate percentage change (%)	**Approximate percentage of total revenue from oilfield project tools and services in 2016 (%)**	Approximate percentage of total revenue from oilfield project tools and services in 2015 (%)
Drilling	**24.1**	178.4	-86%	**7%**	31%
Well completion	**264.4**	282.3	-6%	**78%**	48%
Production enhancement	**52.3**	124.8	-58%	**15%**	21%
Total	**340.8**	585.5	-42%	**100%**	100%

Drilling

The Group's revenue from drilling amounted to HK$24.1 million in 2016, down by HK$154.3 million or 86%, from HK$178.4 million in 2015. The decrease was mainly caused by the decline in drilling business in the Middle East and Northern China.

Well Completion

In 2016, the Group's revenue from well completion amounted to HK$264.4 million, down by HK$17.9 million or 6%, from HK$282.3 million in 2015. The decrease was mainly due to the drop in revenue from the provision of well completion services in the Middle East. However, the Group's sales of completion tools in the China market greatly offset such decline in revenue.

Production Enhancement

In 2016, the Group's revenue from production enhancement amounted to HK$52.3 million, down by HK$72.5 million or 58%, from HK$124.8 million in 2015. The decrease was mainly due to the decline in revenue from production enhancement projects in China and Kyrgyzstan, partly because of the reduced budget of a major customer in China and partly due to the suspension of services in order to tackle the issue of slow progress in payment by a customer in Kyrgyzstan.

CUSTOMER ANALYSIS

Customer	**2016** **(HK$ million)**	2015 *(HK$ million)*	Approximate percentage change (%)	**Approximate percentage of total revenue in 2016 (%)**	Approximate percentage of total revenue in 2015 (%)
Customer 1	**71.4**	–	N/A	**18%**	N/A
Customer 2	**50.9**	113.3	-55%	**13%**	18%
Customer 3	**43.6**	–	N/A	**11%**	N/A
Customer 4	**38.9**	–	N/A	**10%**	N/A
Customer 5	**38.9**	54.6	-29%	**10%**	9%
Customer 6	**31.5**	39.1	-19%	**8%**	6%
Other customers	**117.2**	424.0	-72%	**30%**	67%
Total	**392.4**	631.0	-38%	**100%**	100%

The revenue from customer 1 amounted to HK$71.4 million and such revenue from a new customer was mainly attributable to on-going marketing and promotion activities of the Group's self-developed tools in China. The revenue from customer 2 amounted to HK$50.9 million in 2016, down by HK$62.4 million or 55%, from HK$113.3 million in 2015. Such drop was mainly due to the decrease in provision of well completion tools and services in the Middle East. The revenue from customer 3 amounted to HK$43.6 million, which was also attributable to the Group's new marketing strategy in China. The revenue from customer 4 amounted to HK$38.9 million, which was generated from the sales of completion tools in the Middle East. The revenue from customer 5 amounted to HK$38.9 million in 2016, down by HK$15.7 million or 29% from HK$54.6 million in 2015. Such decrease was mainly caused by the reduction in sales of well completion tools in the Middle East. The revenue from customer 6 amounted to HK$31.5 million in 2016, down by HK$7.6 million or 19% from HK$39.1 million in 2015. The decrease was mainly caused by completion of the oilfield consultancy services of the customer during the year. The revenue from other customers amounted to HK$117.2 million in 2016, down by HK$306.8 million or 72% from HK$424.0 million in 2015. The decrease was mainly due to the continuing decrease of crude oil prices which led to the depression of the industry investment and the shrinkage of the oilfield services market.

RESEARCH AND DEVELOPMENT

As a high-end integrated oilfield services provider, the Group attaches great importance to technology and prides itself in introducing innovative products and services in various oilfield service lines, such as turbine-drilling, directional drilling, multi-stage fracturing, down-hole completion, surface facilities for safety and flow control, drilling fluids and fracturing liquid. In 2016, the Group continued to seek advancement in technology and introduced new products to the market, including the following:

- Developed a new $5\frac{1}{2}$" tubing retrievable safety value with 10,000 Psi working pressure together with a wireline safety valve and lock out tool;

- Upgraded the American Petroleum Institute ("**API**") license of the packer group, down hole completion tool which hang all the tubing and diverse the production for annular to tubing, in API 11D1 from Grade V3 to Grade V0;

- Upgraded the API license of the flow control group in API 14L from Grade V2 to Grade V1;

- Developed a new $9\frac{5}{8}$" packer which is with dual piston and dual bore to run with electric submersible pump. This new packer can be set with lower pressure and provide easier field operation and enhance cost effectiveness;

- Introduced a new fracturing technology, being dissolvable plug-and-perforation fracturing technology, to a major customer in China. The new technology can substantially shorten the total operation time and in turn saving operation costs.

In 2016, the Group had been granted 2 utility model patents and 2 innovation patents. In addition, the Group has 14 innovation patents and 4 utility model patents under application as at 31 December 2016.

The Group will continue to focus on developing down-hole completion tools and technology, as well as certain specific high-end drilling tools and technology. In order to maintain its leading position in the high-end oilfield service sector, the Group will further enhance its tools and technology in 2017 through in-house research and development and cooperation with oilfield service technology companies.

HUMAN RESOURCES

The Group believes that our people are the most valuable assets to our sustainable business growth. We have implemented human resources policies and procedures that detailed the requirements on dismissal compensation, recruitment, promotion, working hours, equal opportunity and other benefits and welfare. We support employees' growth and strive to secure our core expertise through training and development. To equip our frontline staff with the right skillset and knowledge, we arrange a series of training courses that cover technical update of drilling and completion technology, blast management, control at wells and environment management. We also work with external organisations such as unions and consultants to provide training for the specific needs of the operations. During the year, the Group arranged 107 trainings and 295 employees attended these training programs.

As the employee benefit expenses form a major part of the operating costs, the Group periodically reviews the adequacy of our total headcount and evaluates the individual performance of each employee. To cope with the industry downturn in 2016, the Group streamlined the organisation structure and the cost structure of all service lines as well as supporting departments. Total headcount is reduced by 37% to 349 employees as at 31 December 2016 from 553 employees as at 31 December 2015.

In order to keep the Group's human resources policies and procedures abreast with the industry development, the Group reviewed its human resources management system and made certain transformation aiming at a long-term development of the Group's engineer talents and adopted a new performance based remuneration system in early 2017, encouraging staff ownership and team spirit.

FINANCIAL REVIEW

Revenue

During the year, the Group's revenue amounted to HK$392.4 million, which decreased by 38% compared with that of HK$631.0 million in 2015, representing a decrease of HK$238.6 million. The decrease in revenue was mainly attributable to the decline of revenue in oilfield project tools and services caused by the shrinking markets, intensified competition and delay in certain projects affected by the low oil price.

Material Costs

During the year, the Group's material costs were HK$165.6 million, which decreased by HK$50.3 million or 23% compared with that of HK$215.9 million in 2015. The decrease in material costs was mainly due to the drop of revenue in 2016.

Depreciation of Property, Plant and Equipment

During the year, the depreciation of property, plant and equipment amounted to HK$93.7 million, which increased by HK$7.4 million or 9% compared with that of HK$86.3 million in 2015, primarily resulting from the additions of service equipment in the second half of 2015.

Employee Benefit Expenses

During the year, the Group's employee benefit expenses were HK$112.1 million, which dropped by HK$56.2 million or 33% compared with that of HK$168.3 million in 2015. The decrease in employee benefit expenses mainly resulted from the optimisation of the staff structure and the strengthening of the cost control in the harsh market environment, where the headcount decreased by 37% from 553 in 2015 to 349 in 2016.

Distribution Expenses

During the year, the Group's distribution expenses amounted to HK$13.0 million, which decreased by HK$1.7 million or 12% from HK$14.7 million in 2015. The decrease in distribution expenses was mainly due to the drop in the revenue.

Technical Service Fees

During the year, the Group's technical service fees amounted to HK$24.7 million, which decreased by HK$87.0 million or 78% from HK$111.7 million in 2015. The decrease in technical service fees was mainly related to the decline in the number of oilfield projects tools and services in the Middle East area.

Provision for Impairment of Trade Receivables, Net

During the year, the provision for impairment of trade receivables net of reversal amounted to HK$16.1 million, which decreased by HK$166.0 million or 91% from HK$182.1 million in 2015. It was mainly due to the provision for impairment of trade receivable from a major customer in Venezuela and a major customer in the China market amounted to HK$127.1 million and HK$33.1 million, respectively in 2015. The provision for impairment of trade receivables in 2016 was mainly attributable to a customer in the Middle East area.

Other Expenses

During the year, the Group's other expenses were HK$76.4 million, which decreased by HK$2.1 million or 3% from HK$78.5 million in 2015. The decrease was mainly resulted from the Group's cost control measures.

Impairment Loss of Goodwill

During the year, the Group's impairment loss of goodwill amounted to HK$213.9 million (31 December 2015: Nil), mainly because the Group's performance in relation to the oilfield project tools and services has been adversely affected by the long term low oil price and the economics and industry downturn.

Impairment Loss of an Available-for-sale Financial Asset

During the year, the Group's impairment loss of an available-for-sale financial asset amounted to HK$28.9 million (31 December 2015: Nil), due to a significant decline in fair value of the available-for-sale financial asset below its cost.

Operating Loss

As a result of the foregoing, the Group's operating loss in 2016 amounted to HK$416.9 million, which increased by HK$72.7 million or 21% compared with the HK$344.2 million in 2015.

Net Financing Costs

During the year, the Group's net financing costs amounted to HK$24.1 million, which decreased by HK$24.0 million compared with that of HK$48.1 million in 2015. This change was mainly attributable to the repayment of bank borrowings.

Loss for the Year

As a result of the foregoing, the Group's loss amounted to HK$445.3 million, which increased by HK$53.5 million compared with the HK$391.8 million in 2015.

Loss Attributable to Owners of the Company

As a result of the foregoing, the Group's loss attributable to owners of the Company in 2016 was HK$443.4 million, which increased by HK$59.1 million compared with that of HK$384.3 million in 2015.

Property, Plant and Equipment

Property, plant and equipment mainly include items such as buildings, plant and machinery, motor vehicles, furniture, office equipment, computers, fixtures and fittings. As at 31 December 2016, the Group's property, plant and equipment amounted to HK$605.6 million, which decreased by HK$152.3 million or 20% from HK$757.9 million as at 31 December 2015. The decrease was primarily due to the depreciation of the property, plant and equipment, disposal of some equipments and transfer to assets held for sale.

Intangible Assets

As at 31 December 2016, the Group's intangible assets amounted to HK$304.4 million, representing a decrease of HK$216.1 million or 42% from HK$520.5 million as at 31 December 2015. The decrease was mainly affected by an impairment loss of HK$213.9 million, which recognised against the goodwill of the oilfield project tools and services as discussed above.

Inventories

As at 31 December 2016, the Group's inventories amounted to HK$170.8 million, representing a drop of HK$71.9 million or 30% compared with that of HK$242.7 million as at 31 December 2015. The average turnover days of inventories decreased from 505 days in 2015 to 457 days in 2016. The decrease of inventories turnover days was mainly due to utilisation of aged-tools by the Group and costs control in the procurement process in 2016.

Trade Receivables

As at 31 December 2016, the Group's trade receivables amounted to HK$401.8 million, representing a decrease of HK$65.3 million or 14% compared with that of HK$467.1 million as at 31 December 2015. The average turnover days of trade receivables were 405 days in 2016, representing an increase of 126 days compared with the 279 days in 2015. The increase in turnover days of trade receivables was mainly due to the slower settlement by some of the customers in 2016.

Trade Payables

As at 31 December 2016, the Group's trade payables were HK$174.2 million, which decreased by HK$136.8 million or 44% compared with that of HK$311.0 million as at 31 December 2015. The average turnover days of trade payables increased from 347 days in 2015 to 467 days in 2016, representing an increase of 120 days. The increase in turnover days of trade payables was mainly due to the slower payment by the Group in 2016.

Liquidity and Capital Resources

The Group's objectives for capital management are to safeguard the Group's ability to continue as a going concern in order to maintain an optimal capital structure and reduce the cost of capital, while maximising the return to shareholders through improving the debt and equity balance.

As at 31 December 2016, the Group's cash and cash equivalents amounted to HK$44.9 million, representing a decrease of HK$1.7 million compared with the HK$46.6 million as at 31 December 2015. The cash and cash equivalents were mainly held in RMB and US$.

As at 31 December 2016, HK$5.6 million cash was restricted deposits held at bank as reserve under litigation claim (31 December 2015: HK$6.0 million).

As at 31 December 2016, the Group's bank facilities of HK$41.4 million (31 December 2015: HK$534.0 million) were granted by a bank to a subsidiary, of which all (31 December 2015: HK$236.0 million) have been utilised by the subsidiary.

Gearing Ratio

As at 31 December 2016, the Group's gearing ratio (calculated as net debt divided by total capital) was 10% (31 December 2015: 10%). Net debt is calculated as total borrowings (including "current and non-current bank and other borrowings" as shown in the consolidated financial statements) less total cash (including "pledged bank deposits", "cash and cash equivalents" and "restricted bank balance" as shown in the consolidated financial statements). Total capital is calculated as "equity" as shown in the consolidated financial statements plus net debt.

Foreign Exchange Risk

The Group operates in various countries and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US$, EUR and RMB. Foreign exchange risk mainly arises from trade and other receivables, cash and cash equivalents, trade and other payables, intra-group balance and bank borrowings in foreign currencies.

Contractual Obligations

The Group leases various offices, warehouses and a land in Singapore under non-cancellable operating lease agreements. The lease terms are between 1 and 29 years, and the majority of lease agreements are renewable at the end of the lease period at market rate. The Group's commitment under operating leases amounted to HK$23.7 million as at 31 December 2016.

Contingent Liabilities

During 2014, a contracting party initiated legal proceedings against the Group alleging a failure to provide stipulated amount of drilling works under the contracts entered in 2012 and 2013 and claimed for a total amount of RMB25.0 million. The case was concluded on 1 June 2015 in which the judgement of the court has been in favor of the Group and has dismissed the claim of the contracting party. The contracting party is in the process of appeal. As at 31 December 2016, restricted deposits of RMB5.0 million (equivalent to approximately HK$5.6 million) are held at bank as reserve under litigation claim (31 December 2015: equivalent to approximately HK$6.0 million).

Non-current Assets Held for Sale

On 31 May 2016, the Group entered into an agreement to transfer the ownership of a land use right in the PRC with carrying amount of HK$13.6 million to an independent third party. The sale proceeds of the land use right amounted to HK$20.0 million, with deposits received amounted to HK$13.4 million as at 31 December 2016. The transfer was completed on 10 January 2017.

On 12 October 2016 and 14 October 2016, the Group entered into agreements to dispose certain machineries to an independent third party at the consideration of approximately HK$17.2 million, with the carrying value of HK$15.8 million as at 31 December 2016. The transfer was completed on 12 January 2017.

Off-balance Sheet Arrangements

As at 31 December 2016, the Group did not have any off-balance sheet arrangements (31 December 2015: Nil).

ABOUT THIS REPORT

Petro-king Oilfield Service Limited (the "**Company**") together with its subsidiaries (the "**Group**" or "**we**") are pleased to present you this Environmental, Social and Governance ("**ESG**") Report. The Group's main operations include high-end oilfield services focusing on drilling, well completion and the provision of associated products to customers. Since its inception, the Group has served customers located in various jurisdictions, including Mainland China, the Middle East, Russia, Australia, Canada, South America, Singapore, Indonesia, Taiwan, Kazakhstan, Kyrgyzstan, Turkmenistan, the Republic of Trinidad and Tobago, and the Gabonese Republic.

This report, covering the year ended 31 December 2016, aims to provide visibility to our stakeholders on the highlights of our ESG performance. The report is compiled in accordance with the ESG Reporting Guide under Appendix 27 of the Main Board Listing Rules issued by the Stock Exchange of Hong Kong Limited in 2015.

The Group is committed to good corporate social citizenship and works to integrate ESG considerations into its business management and day-to-day operations. We consider environmental and social responsibilities as a key part of our license-to-operate, regardless of the economic conditions and business performance.

We engage our stakeholders on an ongoing basis to collect their views on the ESG issues that they regard as most relevant and important. The following sections of the report cover environmental protection, employment and labour practices, operating practices and community investment, with an aim to address the key interests and concerns of our stakeholders.

ENVIRONMENTAL PROTECTION

We are committed to operating in a sustainable manner by mitigating emissions, improving resource efficiency and minimising environmental impacts through the oil and gas exploration projects that we manage. Our high-end oilfield services have implemented environmental management systems that are established and certified in line with the internationally recognised standards such as the ISO 14001 standard.

We have implemented procedures and protocols to control our emissions and apply advanced technologies to improve operational efficiency and minimise energy use and greenhouse gas (GHG) emissions. For example, we have developed and patented devices to optimise the flow control and the production of oil wells.

Fluids generated from the drilling process is contained onsite, dewatered and conditioned for reuse where possible and for treatment to meet relevant discharge standards. Monitoring is undertaken on a daily basis to identify signs of leakage of wastewater from the lined ponds. Contaminated mud, materials and other hazardous wastes generated from our drilling services are segregated and stored in line with the established procedures and collected for treatment or disposal by licensed third party contractors.

Before project commencement, comprehensive environmental impact assessments are conducted to ensure that the environmental impacts due to project development and operations are acceptable. Ongoing environmental monitoring and audits are performed to verify that proposed control measures are undertaken and effective in protecting the ecosystems. Upon completion of well development, earth covering and habitat restoration are carried out in line with the respective environmental impact assessments and permitting requirements.

In addition, in the projects that we supervise and manage, our professionals help develop detailed requirements and procedures for prevention of operational spills and leakages. Spill response plans are set up to minimise potential environmental contamination in the event of any spills or leakages.

A new set of internal policy has been developed to address the efficient use of resources. At project sites and offices, we remind employees to turn off idle electrical appliances and adopt double-side printing. Electricity usage and water consumption at our premises are recorded and analysed to identify measures to lower wastage.

EMPLOYMENT AND LABOUR PRACTICES

Employment

We believe that our people are the most valuable assets to our sustainable business growth. We have implemented human resources policies and procedures that detail requirements on compensation, dismissal, recruitment, promotion, working hours, equal opportunity and other benefits and welfare.

We provide our employees with industry-compliant remuneration, benefits and welfare including insurance, annual health check, communication and meal allowances. Our employees are assessed and rewarded based on their performance.

The Group embraces diversity and is committed to building a supportive and inclusive environment through fair employment practices. We have zero tolerance to harassment and discrimination of any form. During the year, we organised a series of team-building activities, such as excursions and barbeque, to foster team spirit and encourage collaboration.

Health and safety

The Group has a long-lasting commitment on health and safety management to our employees, customers, and contractors. We have adopted an integrated system for health, safety and environmental (HSE) management. Our HSE procedures are strictly enforced to ensure consistent and effective management of HSE across our business units and facilities. Our HSE management system stresses eight pillars which consist of (1) commitment, leadership and responsibility, (2) policies and objectives, (3) organisational structure and resources, (4) contractor and supply chain management, (5) risk management, (6) operation process, (7) performance monitoring and improvement, and (8) check and review. Risks related to health and safety at workplace are identified, assessed and mitigated. We have an incident reporting mechanism in place and encourage employees and contractors to timely report and record near-misses and incidents. Safety performance is measured, analysed and reported to facilitate continuous improvement.

Routine safety training is provided to prepare frontline employees, supervisors, contractors and site visitors against potential safety hazards and emergency situations. Specific safety procedures are set up and conveyed to onsite workers to address high-risk operations such as drilling, well control, confined space operations and electrical work. Gas detectors are installed onsite to warn the staff against toxic gases including hydrogen sulphide and carbon monoxide.

Development and training

We support employees' growth and strive to secure our core expertise through training and development. To equip our frontline staff with the right skillset and knowledge, we arrange a series of training courses that cover blast management, controls at wells and environment management. We also work with external organisations such as unions and consultants to provide training for the specific needs of the operations.

Labour standards

The Group strictly prohibits the use of child and forced labour in our operations. We expect our suppliers to adhere to the same standard of labour practices.

Operating practices

Supply chain management

The Group interacts with a network of suppliers and service providers. We work closely with them to manage supply chain risks including those related to ESG performance. New suppliers are subject to rigorous screening based on a range of criteria such as quality, safety, labour practices and environmental compliance; site investigation is performed as needed to verify supplier performance. Suppliers who have passed the screening will be included in the approved supplier list. Performance assessment is conducted annually. In the event of an unsatisfactory performance, the supplier will be asked to take rectification actions in a timely manner. Suppliers who fail to comply with our standards may be suspended from our business relationship.

Product responsibility

As a high-end integrated oilfield services provider, quality, reliability and safety of our products and services are key to our customers. The Group adopts stringent quality assurance and control procedures to maintain and improve product and service quality. Our operations have a quality management system in place which is certified against the ISO 9001 standard.

We value customer feedback as it is important to our continuous improvement. Complaints are categorised based on severity, recorded, escalated where needed and followed up by professional teams in a timely manner.

The Group has established data and privacy protection requirements which have been communicated to the employees through internal guidelines and training. Customer data is treated as strictly confidential, handled with due care, and accessible only by authorised personnel.

Anti-corruption

We continue to maintain a high standard of anti-corruption measures and strictly prohibit any form of unethical behaviours including bribery, corruption and fraud. Our principles and strong stance against corruption, conflicts of interest and other malpractices are well conveyed to our employees and the parties that we work with. We circulate our anti-corruption guidelines to newly engaged suppliers and ask them to uphold integrity and business ethics as a prerequisite to doing business with us.

Community investment

The Group is devoted to serve the community through supporting youth development and sustainable development. We acknowledge the importance of education in the development journey for youngsters. The Group has set up the "Petro-king One Million Yuan Foundation" in collaboration with Southwest Petroleum University in Mainland China, to recognise and inspire students with excellent performance. In addition, we also offer internship opportunities to around 100 students every year and engage them in our projects to gain hands-on experience. This not only helps the Group identify and develop talent, but also provide students with necessary work experience for job hunting after graduation. The "Petro-king Student Grants" was set up by our employees, targeting to assist financially disadvantaged students in completing their secondary education. Around HK$1.3 million (RMB 1.2 million) has been raised for the two programmes thus far.

Besides, we brought reusable items such as furniture to educational institutes with an intent to create a comfortable environment for students to enjoy their school lives and to facilitate better achievements.

Going forward, the Group will continue with its efforts in supporting and empowering the community, with an aim to create long-term value for our society.

Regulatory Compliance

During the reporting period, the Group was not aware of any non-compliance with laws and regulations that have a significant impact on the Group relating to areas such as environmental protection, employment and labour practices and operating practices.

The Company is committed to maintaining high standards of corporate governance and has steered its The Company is committed to maintaining high standards of corporate governance and has steered its development and protected the interests of its shareholders in an enlightened and open manner.

The Board has adopted the code provisions of the Corporate Governance Code (the "**Code Provisions**") set out in Appendix 14 to the Rules Governing the Listing of Securities (the "**Listing Rules**") on the Stock Exchange. During the year ended 31 December 2016, the Company has complied with the Code Provisions save as disclosed in the paragraph headed "Chairman and Chief Executive Officer" below.

DIRECTORS' SECURITIES TRANSACTIONS

The Directors have adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 of the Listing Rules as the code of conduct for carrying out transactions in the Company's securities by the Directors. After specific enquiry with the Directors, the Company confirms that all Directors have fully complied with the required standard of dealings as set out in the Model Code during the reporting period.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

For the year ended 31 December 2016, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

EVENTS AFTER BALANCE SHEET DATE

On 10 January 2017, the Group completed the sale of the land use right with carrying amount of HK$13.6 million to an independent third party. The sale proceeds of the land use right amounted to HK$20.0 million with deposits received amounted to HK$13.4 million as at 31 December 2016.

On 12 January 2017, the Group completed the sale of certain machineries of carrying amount totalling HK$15.8 million to an independent third party at consideration of HK$17.2 million.

On 22 January 2017, the Group entered into an agreement to dispose certain machineries to an independent third party at the consideration of approximately HK$20.8 million, which is the same as the carrying value of these machineries as at 31 December 2016. The transfer will be completed within one year.

THE BOARD OF DIRECTORS

The board of Directors (the "**Board**") is responsible and has general powers for supervising and overseeing all important matters of the Group, including but not limited to the formulation and approval of management strategies and policies, review of the internal control and risk management systems as well as financial performance, considering dividend policies and monitoring the performance of the senior management, while the management is responsible for the day-to-day management, administration and operations of the Group.

As at the date of the report, the Board comprises two executive Directors, namely Mr. Wang Jinlong (Chairman) and Mr. Zhao Jindong, three non-executive Directors, namely Mr. Ko Po Ming, Mr. Lee Tommy and Ms. Ma Hua, and three independent non-executive Directors, namely Mr. He Shenghou, Mr. Tong Hin Wor and Mr. Wong Lap Tat Arthur.

To the best knowledge of the Company, there are no financial, business and family relationships among members of the Board.

DIRECTORS' CONTINUOUS TRAINING AND PROFESSIONAL DEVELOPMENT

According to code provision A.6.5 of the CG Code, all directors should participate in continuous professional development and refresh their knowledge and skills to ensure that their contribution to the board remains informed and relevant.

Details of the continuous professional development participated by the Directors during the period under review are as follows:

	Reading materials	Attending courses, seminars or conferences
Executive Directors		
Wang Jinlong	✓	✓
Zhao Jindong	✓	✓
Non-executive Directors		
Ko Po Ming	✓	✓
Lee Tommy	✓	✓
Ma Hua	✓	
Independent non-executive Directors		
He Shenghou	✓	
Tong Hin Wor	✓	
Wong Lap Tat Arthur	✓	✓

To ensure that the Directors' contribution to the Board remain informed and relevant, the Company will be responsible for arranging and funding suitable training to the Directors.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Under code provision A.2.1 of the CG Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. Wang Jinlong ("**Mr. Wang**") was performing both the roles of chairman and chief executive officer ("**CEO**") of the Group during the reporting period until 25 April 2016. Taking into account Mr. Wang's strong expertise in the oil and gas industry, the Board considered that the roles of chairman and chief executive officer being performed by Mr. Wang enables more effective and efficient overall business planning, decision making and implementation thereof by the Group. However, in order to maintain good corporate governance and fully comply with the Code Provisions, Mr. Wang has resigned as the CEO and Mr. Zhao Jindong ("**Mr. Zhao**") has been re-designated from a vice president to the CEO on 25 April 2016. On 1 December 2016, Mr. Zhao has resigned as the CEO of the Company due to health reason, but remained as an executive Director and Mr. Zeng Weizhong has been appointed as the CEO with effect from 1 December 2016. The changes of CEO appointment enabled the Company to comply with the code provision requirement of separating the roles of chairman and chief executive officer under the Code Provisions.

INDEPENDENT NON-EXECUTIVE DIRECTORS

In compliance with Rule 3.10 of the Listing Rules, the Company has appointed three independent non-executive Directors, representing one-third of the members of the Board, and one of whom possesses the appropriate professional qualifications in accounting and financial management.

Having considered the factors for assessing the independence of the independent non-executive Directors and having received the written annual confirmations of independence from each of them, the Board considers that all the independent non-executive Directors are independent.

NUMBER OF MEETINGS AND DIRECTORS' ATTENDANCE

Code provision A.1.1 of the CG Code provides that board meetings should be held at least four times a year at approximately quarterly intervals with active participation of a majority of directors, either in person or through electronic means of communication.

During the year ended 31 December 2016, the Board has held board meetings regularly for at least four times a year at approximately quarterly intervals. The matters covered in the board meetings held during the period under review include, among others, approval of the final results of the Group for the year ended 31 December 2015, approval of the interim results of the Group for the 6 months ended 30 June 2016, review of the management accounts of the Group, grant of share options, approval of a rights issue of the Company and approval of the changes in CEO.

Details of the attendance of the Directors in the board meetings, board committee meetings and general meetings held during 2016 are as follows:

	Meetings attended/Meetings held					
	Board	Audit Committee	Remuneration Committee	Nomination Committee	Sanction Oversight Committee	General Meeting
Executive Directors						
Wang Jinlong	11/11	–	2/2	2/2	2/2	1/1
Zhao Jindong	11/11	–	–	–	–	1/1
Non-executive Directors						
Ko Po Ming	10/11	–	–	–	–	
Lee Tommy	11/11	–	2/2	2/2	–	–
Ma Hua	10/11	–	–	–	–	–
Independent non-executive Directors						
He Shenghou	11/11	2/2	2/2	2/2	2/2	1/1
Tong Hin Wor	11/11	2/2	2/2	2/2	–	–
Wong Lap Tat Arthur	11/11	2/2	2/2	2/2	2/2	1/1

TERM OF OFFICE OF NON-EXECUTIVE DIRECTORS

The initial term of office of each of the non-executive Directors (including independent non-executive Directors) is three years, subject to re-election.

BOARD COMMITTEES

The Board has established four Board committees, namely, the audit committee (the "**Audit Committee**"), the remuneration committee (the "**Remuneration Committee**"), the nomination committee (the "**Nomination Committee**") and the sanction oversight committee (the "**Sanction Oversight Committee**") to oversee the various aspects of the Company's affairs. The four Board committees are provided with sufficient resources to discharge their duties.

Audit Committee

The Audit Committee was established on 18 February 2013 with written terms of reference in compliance with the CG Code. The primary duties of the Audit Committee are to review and approve our Group's financial reporting process, risk management and internal control system. As at the date of the report, the members of the Audit Committee are Mr. Wong Lap Tat Arthur, Mr. Tong Hin Wor and Mr. He Shenghou, and Mr. Wong Lap Tat Arthur is the chairman of the Audit Committee.

During the year ended 31 December 2016, two meetings of the Audit Committee were held on 23 March 2016 and 25 August 2016 to review and consider, among others, the consolidated financial statements of the Company for the year ended 31 December 2015 and the condensed consolidated financial information for the six months ended 30 June 2016, respectively. All members of the Audit Committee attended the meetings.

The Audit Committee has reviewed, considered and discussed the Company's annual report, financial statements, risk management and internal control system for the year ended 31 December 2016.

The Audit Committee has also discussed and reviewed the key audit matters determined by the external auditor under the new and revised auditor reporting standards under International Standards on Auditing for the year ended 31 December 2016. Further details regarding review of the risk management and internal control systems, the effectiveness of the issuer's internal audit function, and its other duties under the CG Code are set out on pages 29 to 30.

Remuneration Committee

The Remuneration Committee was established on 18 February 2013 with written terms of reference in compliance with the CG Code. The primary duties of the Remuneration Committee are to review and determine the policy and the terms of remuneration packages, bonuses and other compensation payable to the Directors and senior management of the Group, to assess performance of executive directors and approve the terms of their service contracts. As at the date of the report, the members of the Remuneration Committee are Mr. He Shenghou, Mr. Tong Hin Wor, Mr. Wong Lap Tat Arthur, Mr. Wang and Mr. Lee Tommy, and Mr. He Shenghou is the chairman of the Remuneration Committee.

During the year ended 31 December 2016, a meeting of the Remuneration Committee was held on 23 March 2016 to discuss, among others, level of salaries of each of the executive Directors, non-executive Directors, independent non-executive Directors and the management of the Company, and to approve their remuneration proposals with reference to the corporate goals and objectives of the Board. All members of the Remuneration Committee attended the meeting.

Pursuant to code provision B.1.2(c) of the CG Code, the Remuneration Committee made recommendations to the Board on the remuneration packages of individual executive Directors and senior management.

Pursuant to code provision B.1.5 of the CG Code, the emolument of the members of the senior management (excluding the Directors) paid by the Group by band for the year ended 31 December 2016 is set out below:

Emolument band	Number of individuals
Nil to HK$1,000,000	6
HK$1,000,001 – HK$1,500,000	1
Over HK$1,500,000	2

Further particulars regarding Directors' and chief executive's emoluments and the five highest paid employees are set out in note 25 to the consolidated financial statements.

Nomination Committee

The Nomination Committee was established on 18 February 2013 with written terms of reference in compliance with the CG Code. The primary duties of the Nomination Committee are to make recommendations to the Board on the appointment of Directors and the management of the Board succession. As at the date of the report, the members of the Nomination Committee are Mr. Wang, Mr. Lee Tommy, Mr. He Shenghou, Mr. Tong Hin Wor and Mr. Wong Lap Tat Arthur, and Mr. Wang is the chairman of the Nomination Committee.

During the year ended 31 December 2016, a meeting of the Nomination Committee was held on 23 March 2016 to review the structure, size and composition (including the skills, knowledge and experience) of the Board, make recommendations on any proposed changes to the Board to complement the Company's corporate strategy, to assess the independence of independent non-executive Directors, to discuss the re-election of Directors in the annual general meeting according to the articles of association of the Company. All members of the Nomination Committee attended the meeting.

Pursuant to code provision A.5.6 of the CG Code, the Board has adopted a board diversity policy and the Nomination Committee is responsible for monitoring the achievement of the measureable objectives set out in the policy.

The Company recognises and seizes the benefits of having a diverse Board to enhance the quality of its performance. With a view to achieving a sustainable and balanced development, the Company sees increasing diversity at the Board level as an essential element in supporting the attainment of its strategic objectives and its sustainable development.

In designing the Board's composition, Board diversity has been considered from a number of aspects, including but not limited to gender, age, cultural and educational background, professional experience, skills and knowledge. All Board appointments will be based on merit, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board.

Sanction Oversight Committee

The Sanction Oversight Committee was established on 1 November 2012 with written terms of reference in compliance with the CG Code. The primary duties of the Sanction Oversight Committee are to assess sanctions risk that the Group may face and to determine whether the Group should embark on business opportunities with any sanctioned countries. As at the date of the report, the members of the Sanction Oversight Committee are Mr. Wong Lap Tat Arthur, Mr. Wang and Mr. He Shenghou, Mr. Wong Lap Tat Arthur is the chairman of the Sanction Oversight Committee.

During the year ended 31 December 2016, two meetings of the Sanction Committee were held on 23 March 2016 and 25 August 2016 respectively to review and discuss issues according to the working plan prepared by the Company. All members of the Sanction Committee attended the meetings.

EXTERNAL AUDITOR'S REMUNERATION

The amount of fees charged by the Company's external auditor, PricewaterhouseCoopers, in respect of their audit and non-audit services for the year ended 31 December 2016 amounted to HK$3,100,000 and HK$250,000, respectively.

THE COMPANY SECRETARY

The Company engaged an external service provider, Mr. Tung Tat Chiu, Michael as its company secretary. Mr. Shu Wa Tung Laurence, our Chief Financial Officer, is the key contact person with whom Mr. Tung can contact. For the year ended 31 December 2016, Mr. Tung has received relevant professional trainings of not less than 15 hours to update his skills and knowledge.

RISK MANAGEMENT AND INTERNAL CONTROL

During the year, the Group has complied with Principle C.2 of the Corporate Governance Code by establishing appropriate and effective risk management and internal control systems. Management is responsible for the design, implementation and monitoring of such systems, while the Board oversees management in performing its duties on an ongoing basis. Main features of the risk management and internal control systems are described in the sections below:

Risk management system

The Group adopts a risk management system which manages the risk associated with its business and operations. The system comprises the following phases:

- *Identification*: Identify ownership of risks, business objectives and risks that could affect the achievement of objectives.
- *Evaluation*: Analyze the likelihood and impact of risks and evaluate the risk portfolio accordingly.
- *Management*: Consider the risk responses, ensure effective communication to the Board and on-going monitor the residual risks.

Based on the risk assessments conducted in 2016, no significant risk was identified.

Internal control system

The Company has in place an internal control system which is compatible with the Committee of Sponsoring Organizations of the Treadway Commission ("**COSO**") 2013 framework. The framework enables the Group to achieve objectives regarding effectiveness and efficiency of operations, reliability of financial reporting and compliance with applicable laws and regulations. The components of the framework are shown as follow:

- *Control Environment*: A set of standards, processes and structures that provide the basis for carrying out internal control across the Group.
- *Risk Assessment*: A dynamic and iterative process for identifying and analysing risks to achieve the Group's objectives, forming a basis for determining how risks should be managed.
- *Control Activities*: Action established by policies and procedures to help ensure that management directives to migitgate risks to the achievement of objectives are carried out.
- *Information and Communication*: Internal and external communication to provide the Group with the information needed to carry out day-to-day controls.
- *Monitoring*: Ongoing and separate evaluations to ascertain whether each components of internal control is present and functioning.

In order to enhance the Group's system of handling inside information, and to ensure the truthfulness, accuracy, completeness and timeliness of its public disclosures, the Group also adopts and implements an inside information policy and procedures. Certain reasonable measures have been taken from time to time to ensure that proper safeguards exist to prevent a breach of a disclosure requirement in relation to the Group, which include:

- The access of information is restricted to a limited number of employees on a need-to-know basis. Employees who are in possession of inside information are fully conversant with their obligations to preserve confidentiality.

- Confidentiality agreements are in place when the Group enters into significant negotiations.

- The executive Directors are designated persons who speak on behalf of the Company when communicating with external parties such as the media, analysts or investors.

Based on the internal control reviews conducted in 2016, no significant control deficiency was identified.

Internal auditors

The Group has an Internal Audit ("**IA**") function, which is consisted of professional staff with relevant expertise (such as Certified Public Accountant). The IA function is independent of the Group's daily operation and carries out appraisal of the risk management and internal control systems by conducting interviews, walkthroughs and tests of operating effectiveness.

An IA plan has been approved by the Board. According to the established plan, reviews of the risk management and internal control systems are conducted semi-annually and the results are reported to the Board via Audit Committee afterwards.

Effectiveness of the risk management and internal control systems

The Board is responsible for the risk management and internal control systems of the Group and ensuring review of the effectiveness of these systems has been conducted semi-annually. Several areas have been considered during the Board's review, which include but not limited to (i) the changes in the nature and extent of significant risks since the last annual review, and the Group's ability to respond to changes in its business and the external environment (ii) the scope and quality of management's ongoing monitoring of risks and of the internal control systems.

The Board, through its review and the review made by IA function and Audit Committee, concluded that the risk management and internal control systems were effective and adequate. Such systems, however, are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss. It is also considered that the resources, staff qualifications and experience of relevant staff were adequate and the training programs and budget provided were sufficient.

SHAREHOLDER'S RIGHTS

How shareholders can convene an extraordinary general meeting

Pursuant to Article 49 of the articles of association of the Company, any one or more shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition.

The procedures by which enquiries may be put to the Board and sufficient contact details to enable these enquiries to be properly directed

Shareholders may send their enquiries and concerns to the Board by addressing them to the principal place of business of Company in Hong Kong at Office No. 504, 5th Floor, Tower 1, Silvercord, No. 30 Canton Road, Kowloon, Hong Kong by post for the attention of the Board.

The procedures and sufficient contact details for putting forward proposals at shareholders' meetings

Shareholders are welcomed to suggest proposals relating to the operations, strategy and/or management of the Group to be discussed at shareholders' meeting. Proposal shall be sent to the Board by written requisition. Pursuant to the articles of association of the Company, shareholders who wish to put forward a proposal should convene an extraordinary general meeting by following the procedures as set out in paragraph headed "How shareholders can convene an extraordinary general meeting" above.

Procedures for proposing a person for election as a director

As regards the procedures for proposing a person for election as a Director, please refer to the procedures made available under the Announcements and Circulars section of the Company's website at http://www.petro-king.cn.

INVESTOR RELATIONS

The Company has uploaded its memorandum and articles of association on the websites of the Stock Exchange (http://www.hkexnews.hk/) and the Company (http://www.petro-king.cn). There are no significant changes in the Company's constitutional documents during the year ended 31 December 2016.

DIRECTORS' RESPONSIBILITY ON THE CONSOLIDATED FINANCIAL STATEMENTS

The Directors acknowledge their responsibility to present a balanced, clear and understandable assessment of the Group's performance, position and prospects in the consolidated financial statements of the annual and interim reports in accordance with statutory requirements and applicable accounting standards. The Directors confirm that, to the best of their knowledge, information and belief, having made all reasonable enquiries, they are not aware of any material uncertainties relating to events or conditions that might cast significant doubt upon the Company's ability to continue as a going concern.

In preparing the consolidated financial statements for the year ended 31 December 2016, the Directors have selected appropriate accounting policies and applied them consistently, and have made judgments and estimates that are prudent and reasonable.

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Mr. Wang Jinlong (王金龍) ("Mr. Wang"), aged 51, is our chairman and executive Director. He was appointed as an executive Director on 31 December 2007 and is also a director of certain subsidiaries of the Group. Mr. Wang is primarily responsible for the long term development strategy of the Group. He has over 30 years of experience in the oil and gas industry. Mr. Wang founded our Group in April 2002 as the executive director and general manager of Petro-king Oilfield Technology Ltd. Prior to that, he worked at 菲利普斯中國有限公司 (Phillips China Inc.) (later known as 康菲石油中國有限公司 (ConocoPhillips China Inc.)) between 1994 and 2003 where he had served as a senior drilling/production engineer. Mr. Wang graduated from 西南石油學院 (Southwest Petroleum Institute*) with a Bachelor of Engineering degree majoring in drilling engineering in July 1986. Mr. Wang obtained a Mid-level Professional Qualification as an engineer in April 1993 issued by 中華人民共和國地質礦產部 (the PRC Ministry of Geology and Mineral Resources*), which was later reformed and incorporated into 中華人民共和國國土資源部 (the PRC Ministry of Land and Resources*), and a qualification of senior engineer issued by CNOOC in March 2002. Mr. Wang has been recognised for his contributions to the development of the technology of geology and was awarded certificates for such contributions by the PRC Ministry of Geology and Mineral Resources in December 1996. Under code provision A.2.1 of the CG Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. Wang was performing both the roles of chairman and chief executive officer ("**CEO**") of the Group during the reporting period until 25 April 2016. Taking into account Mr. Wang's strong expertise in the oil and gas industry, the Board considered that the roles of chairman and chief executive officer being performed by Mr. Wang enables more effective and efficient overall business planning, decision making and implementation thereof by the Group. However, in order to maintain good corporate governance and fully comply with the Code Provisions, Mr. Wang has resigned as the CEO on 25 April 2016.

Mr. Zhao Jindong (趙錦棟) ("Mr. Zhao"), aged 53, is our executive Director and Chief Technology Officer. He joined our Group in 2003 as a vice general manager. He was appointed as an executive Director on 24 December 2012 and is also a director of certain subsidiaries of the Group. Mr. Zhao has over 30 years of experience in drilling and completion services of the oil and gas industry. Before joining our Group, Mr. Zhao was the senior drilling and completion engineer at 康菲石油公司 (ConocoPhillips Oil Company) from October 2002 to December 2003. He was employed by ConocoPhillips China Inc. from October 1997 to October 2002 where he was recognised for his exemplary performance and contributions to the operations in Xinjiang. Mr. Zhao started his career as an engineer trainee at 地質礦產部石油鑽井研究所 (Drilling Institute of Minority of Geology*) in December 1983. He continued his employment with the Drilling Institute of Minority of Geology where he became a senior engineer and an assistant manager of the drilling development department. Mr. Zhao graduated from 中國地質大學 (China Geology University*) with a diploma in drilling engineering in 1988. Mr. Zhao has been appointed as the CEO of the Group on 25 April 2016. On 1 December 2016, Mr. Zhao has resigned as the CEO of the Company due to health reason, but remained as an executive Director. He was appointed as the Chief Technology Officer in February 2017.

Non-executive Directors

Mr. Lee Tommy (李銘浚) ("Mr. Lee"), aged 40, is a non-executive Director. He joined our Group in December 2007 as a director of Petro-king Holding Limited. He was appointed as a non-executive Director on 31 December 2007. Mr. Lee has been the vice chairman and chief executive officer of Termbray Industries International (Holdings) Limited since 2008 and 2010 respectively. Mr. Lee was appointed as director of Guangdong Ellington Electronics Technology Company Limited ("**Guangdong Ellington**") since 2001. Guangdong Ellington was listed on the Shanghai Stock Exchange (stock code: 603328) since 1 July 2014. He was a vice president of Guangdong Ellington from 2001 to 2008, primarily responsible for the overall management and strategic planning of Guangdong Ellington. Mr. Lee studied Economics in Seneca College of Canada.

Ms. Ma Hua (馬華) ("Ms. Ma"), aged 41, is our non-executive Director. She was appointed as a non-executive Director on 12 June 2012. She is currently the managing director of 新疆 TCL 股權投資有限公司 (TCL Capital*). She was TCL Corporation's employee from January 2003 to February 2008 acting as the chairman's corporate secretary. Prior to that, Ms. Ma was employed by TCL 國際控股 (TCL International Holdings Ltd.) as an investor relations personnel from July 2001 to January 2003. Ms. Ma obtained her Master of Business Administration from 中國人民大學 (Renmin University of China*) in January 2004 and graduated from 太原理工大學 (Taiyuan Technology University*) with a Bachelor degree double majoring in industry and foreign trade/English language in July 1998.

Mr. Ko Po Ming (高寶明) ("Mr. Ko"), aged 58, is our non-executive Director. He was appointed as a non-executive Director on 18 February 2013. Mr. Ko graduated from The Chinese University of Hong Kong in 1982 with a Bachelor's degree in Business Administration. Mr. Ko has over 30 years of experience in finance and investment banking business. Prior to co-founding Goldbond Capital Holdings Limited ("**GCHL**") in 2003, he was the Head of Asian Corporate Finance of BNP Paribas Peregrine Capital Limited where he was in charge of the corporate finance business in Asia. GCHL was acquired by Piper Jaffray Companies (NYSE: PJC) in 2007 and its name was changed to Piper Jaffray Asia Holdings Limited ("**PJA**"). Since then and until September 2012, Mr. Ko served as the Chief Executive Officer of PJA. Mr. Ko was a consultant of China Minsheng Banking Corp., Ltd Hong Kong Branch from October 2012 till March 2015. From April 2015 to August 2016, Mr. Ko was the Chief Executive Officer of CMBC International Limited, a wholly owned subsidiary of the China Minsheng Banking Corp. Ltd. Mr. Ko had acted as independent non-executive directors of a number of Hong Kong and PRC listed companies, including (i) Nanjing Panda Electronics Company Limited (stock code: 553) between 1996 and 1999; (ii) Dazhong Transport (Group) Company Limited (SHA: 600611) between 1997 and 2003; (iii) Chinese Energy Holdings Limited (formerly known as iMerchants Limited (stock code: 8009)) between 2000 and 2004; and (iv) Tianjin Capital Environmental Protection Group Company Limited (stock code: 1065) between 2003 and 2009. He was a Listing Committee member of the Main Board and GEM Board of the Stock Exchange between May 2003 and June 2009. At present, he is a Joint Chairman and the Chief Executive Officer and a director of Mason Financial Holdings Limited (stock code: 273), a non-executive director of Globe Metals and Mining Limited (ASX: GBE) and also a trustee of St. Johnsbury Academy, an independent day and boarding secondary school. St. Johnsbury Academy is a non-profit corporation under section 501(c)(3) of the Internal Revenue Code in the United States of America.

Independent Non-executive Directors

Mr. He Shenghou (何生厚) ("Mr. He"), aged 70, is our independent non-executive Director. He was appointed as an independent non-executive Director on 18 February 2013. Mr. He obtained his diploma in production engineering from 北京石油學院 (Beijing Petroleum Institute, now known as China University of Petroleum*) in July 1970. He has over 40 years of experience in oilfield development engineering and technology research and practice while being employed by Sinopec. Mr. He retired in December 2008 as Sinopec's vice executive commander. In November 2007, Mr. He was engaged as a committee member of "大型油氣田及煤層氣開發" 重大專項實施方案論證委員會 (the "Large-scale oil and GasFields and CBM Development" Major Projects Implementation Planning Committee*) by the NDRC, the Ministry of Finance and the Ministry of Science and Technology. Mr. He has numerous achievements throughout his career. A recent achievement is the receipt of a Scientific Development Award certificate from 中國石油和化學工業聯合會 (China Petroleum and Chemical Industry Federation*) in October 2011. Mr. He has resigned as an independent non-executive Director on 27 March 2017.

Mr. Tong Hin Wor (湯顯和) ("Mr. Tong"), aged 71, is our independent non-executive Director. He was appointed as an independent non-executive Director on 18 February 2013. He holds a diploma in management studies from the Hong Kong Polytechnic University. Mr. Tong has over 30 years of working experience in financial management. He was appointed as an independent non-executive director of Termbray Industries International (Holdings) Limited in 2008 where he has also been serving as a member of the audit committee. Mr. Tong was the group vice president of Elec & Eltek Corporate Services Limited from 1995 to 2004 and the group financial controller of Elec & Eltek (International) Limited in 1995. He was the financial controller of Karrie Industrial Company Limited, a company principally engaged in electronics and sheet metal manufacturing in 1993.

Mr. Wong Lap Tat Arthur (黃立達) ("Mr. Wong"), aged 57, is our independent non-executive Director. He was appointed as an independent non-executive Director on 18 February 2013. He is also the chairman of our audit committee. Mr. Wong has more than 30 years of experience in the field of accounting. He is currently the chief financial officer of 北京瑞迪歐文化傳播有限責任公司 (Beijing Radio Cultural Transmission Co., Ltd.*). He was the chief financial officer of GreenTree Inns Hotel Management Group, Inc. from February 2011 to May 2012. He had also previously acted as the chief financial officer of Nobao Renewable Energy Holdings Limited from March 2010 to November 2010 and of Asia New-Energy Holdings Pte. Ltd. from June 2008 to December 2009. Prior to that, Mr. Wong built his career at Deloitte Touche Tohmatsu ("**Deloitte**") from July 1982 to May 2008 where he left as a partner of the Beijing office. Mr. Wong received a Bachelor of Science in applied economics from the University of San Francisco in 1988 and completed a higher diploma of accountancy at Hong Kong Polytechnic University in 1982. He obtained his CPA accreditation from both the American Institute of CPAs and the Hong Kong Institute of CPAs. He is also a member of the Chartered Association of Certified Accountants. He was an independent non-executive director and the chair of the audit committee of Besunyen Holdings Company Limited (stock code: 926) and You On Demand Holdings, Inc. (NASDAQ: YOD) until April 2014 and April 2016 respectively. In addition, he acted as an independent non-executive director and the chair of the audit committee of VisionChina Media Inc. (NASDAQ: VISN) form December 2011 to January 2017. He was also an independent director and the chairman of the compensation committee of Xueda Education Group (NYSE: XUE) from March 2015 to June 2016. He is currently an independent non-executive director and the chair of the audit committee of Sky Solar Holdings, Ltd. (NASDAQ: SKYS), China Maple Leaf Educational Systems Limited (HKSE: 1317), China Automotive Systems, Inc. (NASDAQ: CAAS) and Daqo New Energy Corp. (NYSE: DQ).

Mr. Xin Junhe (辛俊和) ("Mr. Xin"), aged 60, is our independent non-executive Director. He was appointed as an independent non-executive Director on 27 March 2017. He is also the chairman of our remuneration committee. He has over 40 years of experience in drilling services of the oil and gas industry. Mr. Xin graduated from 西南石油學院 (Southwest Petroleum Institute*) with a Bachelor of Engineering degree majoring in drilling engineering in 1982. After graduating from college, Mr. Xin joined 玉門石油管理局 (Yumen Petroleum Administrative Bureau), which is under the management of China National Petroleum Corporation ("**CNPC**"). He has worked for CNPC all his career and retired in December 2016 as the Deputy Chief Engineer of 中國石油海外勘探開發公司 (China Petroleum Overseas Exploration and Development Corporation*). He has outstanding achievement throughout his career, has won first class National Scientific and Technological Progress Award, and has been receiving special government allowance from the State Council of the People's Republic of China. Mr. Xin has been appointed as a director of many projects of CNPC and accumulated rich experience.

SENIOR MANAGEMENT

Mr. Zeng Weizhong (曾維忠) ("Mr. Zeng"), aged 53, is our Chief Executive Officer responsible for overall management of the Group's business operations. He joined the Group on 1 December 2016. Mr. Zeng has over 30 years of experience in the oilfield services industry. Before joining the Group, Mr. Zeng was a vice president of 斯倫貝謝中國公司 (Schlumberger China S.A.* ("**Schlumberger China**")); the chairman of 斯倫貝謝油田技術(山東)有限公司 (Schlumberger Oilfield Technologies (Shandong) Company Limited*); the chairman of 斯倫貝謝(天津)採油機械有限公司 (Schlumberger (Tianjin) Artificial Lift Company Limited*); a director of 中國南海麥克巴泥漿有限公司 (China Nanhai Maikeba Mud Co., Ltd.*); and a director of 中法渤海地質服務有限公司 (China France Bohai Geo Services Co., Ltd.*). Mr. Zeng joined Schlumberger China in 1993 as a directional drilling engineer and had subsequently worked as a directional drilling engineer with Schlumberger in China and other countries including Australia, India, Middle East and Vietnam. From October 1999 to June 2002, Mr. Zeng acted as the geomarket segment general manager in Schlumberger and was responsible for the directional drilling services in Northern Asia. From July 2002 to June 2004, Mr. Zeng was transferred to Schlumberger Middle East and acted as the area marketing manager responsible for the directional drilling services in the Middle East and Asia Pacific area. From July 2004 to January 2007, Mr. Zeng was transferred to Schlumberger Egypt and acted as the geomarket segment general manager responsible for the directional drilling services in North and East Africa and West Asia. From February 2007 to November 2010, Mr. Zeng was transferred to Schlumberger China and acted as the geomarket general manager responsible for the oilfield services business in Northern Asia. From November 2010 to November 2016, Mr. Zeng took various senior management roles in Schlumberger China and its subsidiary and/or associated companies in China. Mr. Zeng started his career as a well cementing engineer at 中國海洋石油總公司 (China National Offshore Oil Corporation*) in August 1983. He continued his employment with China National Offshore Oil Corporation where he became a deputy general manager of 中海油服湛江分公司 (China Oilfield Services Limited Zhanjiang Branch*) in February 1991. Mr. Zeng graduated from 東北石油大學 (Northeast Petroleum University*) in 1983 with a bachelor's degree in engineering specializing in oil drilling engineering.

Ms. Sun Jinxia (孫金霞) ("Ms. Sun"), aged 42, is our Chief Commercial Officer and the general manager of our manufacturing centre. She is also a director of certain subsidiaries of the Group. Ms. Sun is responsible for the Group's daily operation of the contract department, purchase department, logistics department, HSE department, quality assurance department and manufacturing center. She joined our Group in 2003 as an assistant to general manager. She has over 15 years of experience in business management. Ms. Sun was a sales manager of 深圳威尼斯酒店 (the Venice Hotel Shenzhen*) between October 2001 and July 2002. Prior to that, she was a sales supervisor and sales manager of 深圳南海酒店有限公司 (Shenzhen Nanhai Hotel Limited*) from July 1997 to April 1998 and from April 1998 to June 2000, respectively. She completed her Master of Business Administration at the University of Ballarat, Australia in July 2004.

Mr. Zhang Taiyuan (張太元) ("Mr. Zhang"), aged 53, is our general manager of business development department. He is also a director of certain subsidiaries of the Group. He joined our Group in 2004 as a senior drilling supervisor and has been subsequently promoted to director of international projects and also to vice president. Mr. Zhang has over 25 years of experience in project management and drilling engineering of the oil and gas industry. He was an offshore drilling supervisor of Devon Energy China Ltd. prior to joining our Group from December 2002 to December 2004. Between January 2002 and December 2002, he was a project manager of CNPC. Mr. Zhang acted as a CNPC engineering professional representative for CNPC-Burlington (then known as CNPC-ENRON) from October 1997 to January 2002. Prior, he was employed by 川中油氣公司 (Chuanzhong Oil and Gas Company of SPA*) from August 1986 where he acted as a drilling engineer. He graduated from 西南石油學院 (Southwest Petroleum Institute*) in 1986 with a Bachelor of Engineering degree, majoring in drilling engineering.

Mr. Shu Wa Tung Laurence (舒華東) ("Mr. Shu"), aged 44, joined the Group in July 2010 as our chief financial officer and he is primarily responsible for the Group's overall financial strategies and daily management of the Group's financial, accounting and legal functions. Mr. Shu graduated from Deakin University, Australia in 1994 with a Bachelor degree in Business majoring in Accounting. He received his CPA accreditation from both the Hong Kong Institute of CPAs and the Australian Society of CPAs in 1997 and completed his CFO Programme at 中歐國際工商學院 (China Europe International Business School) in 2009. Mr. Shu has over 20 years of experience in audit, corporate finance, and financial management. He joined Deloitte in 1994 and later became a manager of the Reorganisation Services Group of Deloitte and joined Deloitte & Touche Corporate Finance Limited (a corporate finance service company of Deloitte) as a manager from 2001 to 2002. From 2002 to 2005, Mr. Shu was an associate director of Goldbond Capital (Asia) Limited. From May 2005 to July 2008, he served as the chief financial officer and company secretary of Texhong Textile Group Limited (stock code: 2678) overseeing the group's financial management functions. From July 2008 to June 2010, Mr. Shu served as the chief financial officer of Rongsheng Heavy Industries Holdings Limited (熔盛重工控股有限公司) (later known as China Huarong Energy Company Limited (中國華榮能源股份有限公司)) and oversaw the group's financial management functions and corporate finance activities as well as the daily management of the group's finance department.

Mr. Xie Qingfan (謝慶繁) ("Mr. Xie"), aged 53, is our general manager of surface facilities business department. He joined our Group in 2006 as the manager of the northwest region. Mr. Xie has over 30 years of experience in the oil and gas industry. He had acted in various roles during his employment with 中石化中原石油勘探局 (Sinopec Zhongyuan Petroleum Exploration Bureau) between 1982 to 2005; such as engineering service centre director of the 鑽井工程技術研究院 (Drilling Engineering and Technology Research Institute*) in 2001, deputy chief engineer of the 鑽井管具工程處 (Drilling Pipe Tool Engineering Department*) in 2002, and senior engineer in 2005. He received numerous certificates for his contributions to this bureau from as early as 1985. For instance, he was presented with a Technology Advancement Certificate for his research on technology to prevent failure of drilling tools in February 2006 and for his research and development of PDC drill heads in February 2003. Mr. Xie completed a training course of electrical wireline freepoint & backoff provided by HOMCO in 1993 and received training for the operation of motorized freepoint equipment held by Applied Electronic Systems, Inc. in 2001. He graduated from 石油大學 (Petroleum University*) with a Bachelor degree majoring in mine machinery in July 1996.

Mr. Lin Jingyu (林景禹) ("Mr. Lin"), aged 43, is our general manager of production business department. Mr. Lin Jingyu is responsible for the engineering and technology of our production business department. He joined our Group in 2008 as a senior engineer. He has over 20 years of experience in the exploration and development technology of oilfields. From July 2006 to August 2008, Mr. Lin Jingyu served as the vice president and senior engineer of the Acid Fracturing Research Centre of the Research Institute of Petroleum Engineering and Technology of Sinopec Henan Oilfield Company (中石化河南油田分公司石油工程技術研究院壓裂酸化研究所). Before then, he was the office director and engineer of the Acid Fracturing Research Centre of the Research Institute of Petroleum Engineering and Technology of Henan Oilfield Company. From July 1996 to July 2000, he was the assistant engineer of Henan Oilfield and Oil Production Technology Research Institute (河南油田採油工藝研究所). Before then, Mr. Lin Jingyu obtained a Master degree in oil, gas and oilfields exploration from the School of Petroleum Engineering of Yangtze University (formerly known as Jianghan Petroleum Institute) (長江大學石油工程學院(原江漢石油學院)). From September 1992 to June 1996, he obtained a Bachelor degree in petroleum engineering from Xi'an Petroleum Institute (西安石油學院). In addition, Mr. Lin Jingyu participated in international investment and project management for oil and gas exploration and development in Imperial College London during September 2005 to March 2006.

Mr. Ren Wensheng (任文生) ("Mr. Ren"), aged 48, is our general manager of the Middle East region. He joined our Group in May 2015 and he is primarily responsible for the business development and growth in Middle East. Mr. Ren has over 20 years of experience in oil and gas service industry. He has worked as Production Operation, Technology Transfer & HR Superintendent for ConocoPhillips China. He has worked as Chief Commercial Representative & HR Manager for Statoil Orient Inc. He has worked as Vice President for CNOOC Iran Ltd./North Pars Project. He has worked as CNOOC Global Account Manager for Halliburton China Energy Service Ltd. He has worked as District Manager of South China, Sales and Marketing Director for Weatherford China Ltd. Mr. Ren graduated from the Jianghan Petroleum University with a Bachelor of Engineering degree, majoring in Petroleum Engineering and completed his Executive Master of Business Administration at the University of Texas, Arlington in 2008.

COMPANY SECRETARY

Mr. Tung Tat Chiu, Michael (佟達釗) ("Mr. Tung"), aged 54, was appointed as the company secretary of our Company on 18 February 2013. He is the senior partner of Tung & Co., a law firm providing legal advice as to Hong Kong laws to our Group since 2007. He holds a Bachelor of Arts degree in law and accounting from The University of Manchester, the United Kingdom. He has over 25 years of experience as practising lawyer in Hong Kong. He is also a China-Appointed Attesting Officer. Mr. Tung currently serves as a joint company secretary of Jiangxi Copper Company Limited (stock code: 358), Harbin Electric Company Limited (stock code: 1133) and Qingling Motors Co. Ltd (stock code: 1122), respectively. He is currently the internal legal adviser of Silver Grant International Industries Limited (stock code: 171).

Mr. Tung is an external service provider engaged by us as our company secretary and Mr. Shu Wa Tung Laurence (舒華東), our Chief Financial Officer, will be the key contact person with whom Mr. Tung can contact.

CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Mr. Wang Jinlong (王金龍)
Mr. Zhao Jindong (趙錦棟)

NON-EXECUTIVE DIRECTORS

Mr. Ko Po Ming (高寶明)
Mr. Lee Tommy (李銘浚)
Ms. Ma Hua (馬華)

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Wong Lap Tat Arthur (黃立達)
Mr. Tong Hin Wor (湯顯和)
Mr. He Shenghou (何生厚)
(Resigned on 27 March 2017)
Mr. Xin Junhe (辛俊和)
(Appointed on 27 March 2017)

AUDIT COMMITTEE

Mr. Wong Lap Tat Arthur (黃立達) (Chairman)
Mr. Tong Hin Wor (湯顯和)
Mr. He Shenghou (何生厚)
(Resigned on 27 March 2017)
Mr. Xin Junhe (辛俊和)
(Appointed on 27 March 2017)

REMUNERATION COMMITTEE

Mr. Xin Junhe (辛俊和) (Chairman)
(Appointed on 27 March 2017)
Mr. He Shenghou (何生厚) (Chairman)
(Resigned on 27 March 2017)
Mr. Tong Hin Wor (湯顯和)
Mr. Wong Lap Tat Arthur (黃立達)
Mr. Wang Jinlong (王金龍)
Mr. Lee Tommy (李銘浚)

NOMINATION COMMITTEE

Mr. Wang Jinlong (王金龍) (Chairman)
Mr. Lee Tommy (李銘浚)
Mr. He Shenghou (何生厚)
(Resigned on 27 March 2017)
Mr. Tong Hin Wor (湯顯和)
Mr. Wong Lap Tat Arthur (黃立達)
Mr. Xin Junhe (辛俊和)
(Appointed on 27 March 2017)

SANCTION OVERSIGHT COMMITTEE

Mr. Wong Lap Tat Arthur (黃立達) (Chairman)
Mr. Wang Jinlong (王金龍)
Mr. He Shenghou (何生厚)
(Resigned on 27 March 2017)
Mr. Xin Junhe (辛俊和)
(Appointed on 27 March 2017)

COMPANY SECRETARY

Mr. Tung Tat Chiu, Michael (佟達釗)

AUTHORISED REPRESENTATIVES

Mr. Wang Jinlong (王金龍)
Mr. Tung Tat Chiu, Michael (佟達釗)

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PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN THE BRITISH VIRGIN ISLANDS

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Hang Seng Bank Limited
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China

AUDITOR

PricewaterhouseCoopers

LEGAL ADVISERS (HONG KONG LAW)

Tung & Co.

COMPANY'S WEBSITE

www.petro-king.cn

STOCK CODE

2178

REPORT OF THE DIRECTORS

The directors of the Company (the "**Directors**") hereby present the annual report together with the audited consolidated financial statements of the Company and its subsidiaries (the "**Group**") for the year ended 31 December 2016.

THE COMPANY AND INITIAL PUBLIC OFFERING

The Company was incorporated in the British Virgin Islands with limited liability on 7 September 2007. It was formerly known as "**Termbray Oilfield Services (BVI) Ltd. (添利油田服務(英屬維爾京群島)有限公司)**". Its name was changed to "**Termbray Petro-king Oilfield Services (BVI) Limited (添利百勤油田服務(英屬維爾京群島)有限公司)**" on 13 March 2008 and was further changed to "**Termbray Petro-king Oilfield Services Limited (添利百勤油田服務有限公司)**" on 9 August 2012 and was further changed to "**Petro-king Oilfield Services Limited (百勤油田服務有限公司)**" on 30 May 2014. As fully explained in the section headed "History and Development" in the Company's prospectus dated 22 February 2013 (the "**Prospectus**"), the Company has since its incorporation become the ultimate holding vehicle of the Group's various arms of business. The Company has completed its initial public offering and the shares of the Company were listed on the Stock Exchange on 6 March 2013.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The principal activity of the Company is investment holding. The principal activities of its principal subsidiaries are set out in note 36 to the consolidated financial statements. Further discussion and analysis of these activities and a business review as required by Schedule 5 to the Hong Kong Companies Ordinance, can be found in the Management Discussion and Analysis set out on pages 8 to 18 of this annual report. This discussion forms part of this report of the directors.

An analysis of the Group's performance for the year by segments is set out in note 5 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2016 are set out in the consolidated statement of comprehensive income on pages 66 to 67.

The Directors do not recommend the payment of final dividend for the year ended 31 December 2016. No dividends were declared or paid in respect of the year ended 31 December 2015.

USE OF PROCEEDS

Use of proceeds from a rights issue

On 8 July 2016, the Group completed the rights issue of 398,463,388 ordinary shares of the Company at HK$0.31 per rights share and obtained net proceeds of approximately HK$120.0 million. The Group used the net proceeds from the rights issue as to approximately HK$90.0 million for repayment of bank and other borrowings, and as to the remaining (approximately HK$30.0 million) for general working capital purposes.

SUMMARY FINANCIAL INFORMATION

A summary of results and of the assets and liabilities of the Group for the last five financial years is set out on page 2.

SHARES ISSUED IN THE YEAR

Details of the shares issued in the year ended 31 December 2016 are set out in note 16 to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of the British Virgin Islands which would oblige the Company to offer new shares on a pro-rata basis to existing Shareholders.

DISTRIBUTABLE RESERVES

As at 31 December 2016, the Company does not have reserves available for cash distribution and/or distribution, as computed in accordance with the BVI Business Companies Act 2004 (and any amendments thereto).

EQUITY LINKED AGREEMENTS

(a) Convertible bonds

The Company issued convertible bonds at a par value of HK$157 million on 30 March 2015. The bonds mature three years from the issue date at their nominal value of HK$157 million or can be converted into shares at the holder's option at the conversion price of HK$1.39 per conversion share at any period commencing from 6 months after the date of issuance of the convertible bonds and up to the close of business on the maturity date. The net proceeds received from the issuance of convertible bonds was HK$154 million. The Group will not receive further consideration when the holders determine to convert the bonds into ordinary shares of the Company. The net proceeds from the issuance of the convertible bonds was used for partial repayment of the term loan.

(b) Share options granted to directors, senior management and selected employees

Details of the share options granted in prior years and current year is set out in note 26 of the consolidated financial statements, "Pre-IPO Share Option Scheme" and "Share Option Scheme" section contained in this report of the directors. For the share options granted during the year ended 31 December 2016, no shares were issued during the year.

MAJOR CUSTOMERS AND SUPPLIERS

The percentages of sales and purchases for the year attributable to the Group's major customers and suppliers were as follows:

(1) The aggregate amount of revenue attributable to the Group's five largest customers represented approximately 62% of the Group's total revenue. The amount of revenue to the Group's largest customer represented approximately 18% of the Group's total revenue.

(2) The aggregate amount of purchases attributable to the Group's five largest suppliers represented approximately 71% of the Group's total purchases. The amount of purchases to the Group's largest supplier represented approximately 50% of the Group's total purchases.

None of the Directors nor any of their close associates nor any Shareholders (which, to the best knowledge of the Directors, owns more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers and/or five largest suppliers during the year.

DIRECTORS

The Directors of the Company during the year and up to the date of this report were as follows:

Executive Directors:

Mr. Wang Jinlong
Mr. Zhao Jindong

Non-executive Directors:

Mr. Ko Po Ming
Mr. Lee Tommy
Ms. Ma Hua

Independent Non-executive Directors:

Mr. He Shenghou
Mr. Tong Hin Wor
Mr. Wong Lap Tat Arthur

In accordance with Article 75 of the Company's articles of association, Mr. Zhao Jindong, Mr. Lee Tommy and Mr. Wong Lap Tat Arthur will retire from office by rotation at the forthcoming annual general meeting of the Company ("**AGM**"). Mr. Wong Lap Tat Arthur has indicated that he will not stand for re-election when he is due to retire by rotation at the AGM. Mr. Zhao Jindong and Mr. Lee Tommy, being eligible, will offer themselves for re-election.

The Company has received annual confirmation of independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on the Stock Exchange from all independent non-executive Directors and the Board still considers them independent.

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors has entered into a service agreement with the Company for a term of three years and terminable by not less than three months' notice in writing served by either party to the other. Each of these executive Directors is entitled to the respective basic salary set out below (subject to annual review at the discretion of the Board). An executive Director is required to abstain from voting and is not counted in the quorum in respect of any resolution of the Directors regarding the amount of the monthly salary and the discretionary bonus payable to him. The current basic annual salaries of the executive Directors are as follows:

Name	Amount
Mr. Wang Jinlong	HK$835,000 as Director and chairman
Mr. Zhao Jindong	HK$731,000 as Director

Each of the non-executive Directors has entered into a service agreement with the Company for a term of three years and terminable by not less than three months' notice in writing served by either party to the other. Each of these non-executive Directors is entitled to the respective basic salary set out below (subject to annual review at the discretion of the Board). A non-executive Director is required to abstain from voting and is not counted in the quorum in respect of any resolution of the Directors regarding the amount of the monthly salary and the discretionary bonus payable to him/her. The current basic annual salaries of the non-executive Directors are as follows:

Name	Amount
Mr. Lee Tommy	HK$135,000
Ms. Ma Hua	HK$135,000
Mr. Ko Po Ming	HK$225,000

Each of the independent non-executive Directors has entered into a letter of appointment with the Company for a term of three years and terminable by not less than three months' notice in writing served by either party to the other. The current basic annual salaries to the independent non-executive Directors under each of the letters of appointment is as follows:

Name	Amount
Mr. He Shenghou	HK$153,000
Mr. Tong Hin Wor	HK$153,000
Mr. Wong Lap Tat Arthur	HK$255,000

Save as disclosed above, none of the Directors has or is proposed to have any service contract with the Company or any of its subsidiaries (other than contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation).

DIRECTORS' MATERIAL INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS THAT ARE SIGNIFICANT IN RELATION TO THE COMPANY'S BUSINESS

No transactions, arrangements and contracts of significance in relation to the Group's business to which the Company's subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Group were entered into or existed during the year.

EMOLUMENT POLICY

The Company's policy concerning the remuneration of the Directors is that the amount of remuneration is determined by reference to the relevant Director's experience, workload and the time devoted to the Group.

The Company has also adopted a share option scheme as incentive to eligible employees, details of which are set out in the section headed "Share Option Scheme" below.

DIRECTORS' AND CHIEF EXECUTIVE'S INTEREST AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

As at 31 December 2016, the interests and/or short positions of the Directors and chief executive of our Company in the shares, underlying shares and debentures of our Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "**SFO**")), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) or pursuant to the Model Code for Securities Transactions by the Directors of Listed Issuers and which were required to be entered in the register kept by the Company pursuant to section 352 of the SFO were as follows:

Our Company

Name of Director/ chief executive	Capacity/ Nature of interest	Number of shares *(Note 1)*	Approximate percentage of interest in the Company
Mr. Wang Jinlong	Interest in a controlled corporation *(Note 2)*	488,920,138 (L)	28.32%
	Beneficial owner *(Note 4)*	109,481 (L)	0.01%
Mr. Lee Tommy	Beneficiary of trust *(Note 3)*	526,180,335 (L)	30.47%
	Beneficial owner *(Note 4)*	109,481 (L)	0.01%
Mr. Ko Po Ming	Beneficial owner *(Notes 4 and 5)*	1,595,195 (L)	0.09%
Mr. Zhao Jindong	Beneficial owner *(Notes 4 and 6)*	8,788,314 (L)	0.51%
Ms. Ma Hua	Beneficial owner *(Note 4)*	109,481 (L)	0.01%
Mr. He Shenghou	Beneficial owner *(Note 4)*	109,481 (L)	0.01%
Mr. Tong Hin Wor	Beneficial owner *(Note 4)*	109,481 (L)	0.01%
Mr. Wong Lap Tat Arthur	Beneficial owner *(Note 4 and 7)*	499,481 (L)	0.03%
Mr. Zeng Weizhong	Beneficial owner *(Note 8)*	18,888,000 (L)	1.09%

Notes:

1. "**L**" denotes long position and "**S**" denotes short position.

2. Mr. Wang holds approximately 45.24% of the issued share capital in King Shine Group Limited ("**King Shine**") and King Shine directly holds approximately 28.32% of the total number of issued shares of the Company. Therefore, Mr. Wang is taken to be interested in the number of Shares held by King Shine pursuant to Part XV of the SFO.

3. 63.99% of the total issued share capital of Termbray Industries International (Holdings) Limited ("**Termbray Industries**") is owned by Lee & Leung (B.V.I.) Limited which is wholly-owned by Lee & Leung Family Investment Limited, which is wholly owned by HSBC International Trustee Limited as trustee for Lee & Leung Family Trust. Mr. Lee Lap is the settlor of the Lee & Leung Family Trust. The discretionary beneficiaries of the Lee & Leung Family Trust are Madam Leung Lai Ping, the children of Mr. Lee Lap and Madam Leung Lai Ping (including Mr. Lee Tommy, a non-executive Director) and the offspring of such children. Termbray Industries directly holds 100% of the issued share capital of Termbray Electronics (B.V.I.) Limited ("**Termbray Electronics (BVI)**") which in turn holds 100% of the issued share capital of Termbray Natural Resources Company Limited ("**Termbray Natural Resources**"). Therefore, Mr. Lee Lap, Mr. Lee Tommy, HSBC International Trustee Limited, Lee & Leung Family Investment Limited, Lee & Leung (B.V.I.) Limited, Termbray Industries and Termbray Electronics (BVI) are taken to be interested in the number of Shares held by Termbray Natural Resources pursuant to Part XV of the SFO.

4. 100,000 share options were granted to each of the Directors on 29 April 2014 pursuant to the Share Option Scheme and were adjusted to 102,173 share options after the completion of the rights issue of the Company on 4 February 2015 and were further adjusted to 109,481 share options after the completion of the rights issue of the Company on 8 July 2016. Therefore under Part XV of the SFO, the Directors are taken to be interested in the underlying shares that they are entitled to subscribe for subject to the exercise of the share options granted.

5. Apart from Note 4, these shares include 1,485,714 shares beneficially owned by Mr. Ko Po Ming.

6. 2,500,000 share options were conditionally granted to Mr. Zhao Jindong on 29 May 2015 and became unconditional on 7 September 2015 and were adjusted to 2,678,833 share options after the completion of the rights issue of the Company on 8 July 2016. 6,000,000 share options were unconditionally granted to Mr. Zhao Jindong on 26 October 2016. Therefore under Part XV of the SFO, Mr. Zhao Jindong is taken to be interested in the underlying shares that he is entitled to subscribe for subject to the exercise of the share options granted.

7. Apart from Note 4, these shares include 390,000 shares beneficially owned by Mr. Wong Lap Tat Arthur.

8. 17,000,000 share options were unconditionally granted to Mr. Zeng Weizhong on 1 December 2016. Therefore under Part XV of the SFO, Mr. Zeng Weizhong is taken to be interested in the underlying shares that he is entitled to subscribe for subject to the exercise of the share options granted. Prior to the grant of share options, 1,888,000 shares were beneficially owned by Mr. Zeng Weizhong.

Save as disclosed above, as at 31 December 2016, none of the Directors or chief executive of the Company had any interests and/or short positions in the shares, underlying shares or debentures of our Company or any associated corporations (within the meaning of Part XV of the SFO), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) or pursuant to the Model Code for Securities Transactions by the Directors of Listed Issuers and which were required to be entered in the register kept by the Company pursuant to section 352 of the SFO.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2016, the following persons (other than a Director or chief executive of our Company) had an interest or a short position in the shares or underlying shares of our Company which would fall to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under section 336 of the SFO:

Name of shareholder	Capacity/ Nature of interest	Number of shares *(Note 1)*	Approximate percentage of interest in the Company
Mr. Lee Lap	Settlor of a discretionary trust *(Note 2)*	526,180,335 (L)	30.47%
HSBC International Trustee Limited	Trustee *(Note 2)*	526,180,335 (L)	30.47%
Lee & Leung Family Investment Limited	Interest in a controlled corporation *(Note 2)*	526,180,335 (L)	30.47%
Lee & Leung (B.V.I.) Limited	Interest in a controlled corporation *(Note 2)*	526,180,335 (L)	30.47%
Termbray Industries	Interest in a controlled corporation *(Note 2)*	526,180,335 (L)	30.47%
Termbray Electronics (BVI)	Interest in a controlled corporation *(Note 2)*	526,180,335 (L)	30.47%
Termbray Natural Resources	Beneficial owner	526,180,335 (L)	30.47%
TCL Corporation	Interest in a controlled corporation *(Note 3)*	136,303,475 (L)	7.89%
T.C.L. Industries Holdings (H.K.) Limited ("**TCL HK**")	Interest in a controlled corporation *(Note 3)*	136,303,475 (L)	7.89%
Exceltop Holdings Limited	Interest in a controlled corporation *(Note 3)*	136,303,475 (L)	7.89%
Jade Max Holdings Limited	Interest in a controlled corporation *(Note 3)*	136,303,475 (L)	7.89%
Jade Win Investment Limited ("**Jade Win**")	Beneficial owner	136,303,475 (L)	7.89%
Ms. Zhou Xiaojun	Interest of spouse *(Note 4)*	489,029,619 (L)	28.32%
King Shine	Beneficial owner	488,920,138 (L)	28.32%
UBS Group AG *(Note 5)*	Person having a security interest in shares	91,121,270 (L)	5.28%
UBS AG *(Note 6)*	Beneficial owner	670,857 (L) 670,857 (S)	0.05% 0.05%
	Person having a security interest in shares	70,093,285 (L)	5.68%
Greenwoods Asset Management Holdings Limited *(Note 7)*	Interest in a controlled corporation	62,824,713 (L)	5.08%
Greenwoods Asset Management Limited *(Note 7)*	Interest in a controlled corporation	62,824,713 (L)	5.08%
Jiang Jinzhi *(Note 7)*	Interest in a controlled corporation	62,824,713 (L)	5.08%
Unique Element Corp. *(Note 7)*	Interest in a controlled corporation	62,824,713 (L)	5.08%

Notes:

1. "**L**" denotes long position and "**S**" denotes short position.

2. 63.99% of the total issued share capital of Termbray Industries is owned by Lee & Leung (B.V.I.) Limited which is wholly-owned by Lee & Leung Family Investment Limited, which is wholly owned by HSBC International Trustee Limited as trustee for Lee & Leung Family Trust. Mr. Lee Lap is the settlor of the Lee & Leung Family Trust. The discretionary beneficiaries of the Lee & Leung Family Trust are Madam Leung Lai Ping, certain children of Mr. Lee Lap and Madam Leung Lai Ping (including Mr. Lee Tommy, a non-executive Director) and the offspring of such children. Termbray Industries directly holds 100% of the issued share capital of Termbray Electronics (BVI) which in turn holds 100% of the issued share capital of Termbray Natural Resources. Therefore, Mr. Lee Lap, Mr. Lee Tommy, HSBC International Trustee Limited, Lee & Leung Family Investment Limited, Lee & Leung (B.V.I.) Limited, Termbray Industries and Termbray Electronics (BVI) are taken to be interested in the number of shares held by Termbray Natural Resources pursuant to Part XV of the SFO.

3. TCL Corporation directly holds 100% of the issued share capital of TCL HK, which in turn holds 100% of the issued share capital of Exceltop Holdings Limited, which in turn holds 100% of the issued share capital of Jade Max Holdings Limited, which in turn holds 100% of the issued share capital of Jade Win. Therefore, TCL Corporation, TCL HK, Exceltop Holdings Limited and Jade Max Holdings Limited are taken to be interested in the number of shares held by Jade Win pursuant to Part XV of the SFO.

4. Ms. Zhou holds approximately 17.91% of the issued share capital in King Shine. Ms. Zhou is the spouse of Mr. Wang. Therefore, Ms. Zhou is deemed to be interested in the shares in which Mr. Wang is interested for the purpose of the SFO.

5. Information is extracted from the corporate substantial shareholder notice filed by UBS Group AG on 5 January 2017, the interests include 91,121,270 shares in long position.

6. Information is extracted from the corporate substantial shareholder notice filed by UBS AG on 9 February 2015.

7. Information is extracted from the corporate substantial shareholder notices filed by Greenwoods Asset Management Holdings Limited, Greenwood Asset Management Limited and Unique Element Corp. on 5 February 2015, and the individual substantial shareholder notice filed by Mr. Jiang Jinzhi on 5 February 2015.

Save as disclosed above, as at 31 December 2016, the Directors are not aware that there is any party (not being a Director) who had any interest or short position in the shares or underlying shares of our Company which would fall to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group or any options in respect of such shares.

PARTICULARS OF DIRECTORS OF THE COMPANY WHO WERE DIRECTORS/EMPLOYEES OF SUBSTANTIAL SHAREHOLDERS

Mr. Wang Jinlong and Mr. Zhao Jindong are directors of King Shine which is a substantial shareholder of the Company.

Mr. Wang Jinlong was a director of Termbray Industries, which is a substantial shareholder of the Company, from December 2007 to November 2010.

Mr. Lee Tommy is a director of Termbray Industries which is a substantial shareholder of the Company.

Ms. Ma Hua was an employee of TCL Corporation, which is a substantial shareholder of the Company, from January 2003 to February 2008 acting as the chairman's corporate secretary.

Mr. Tong Hin Wor was appointed as an independent non-executive director of Termbray Industries, which is a substantial shareholder of the Company, in 2008 where he has also been serving as a member of the audit committee.

PRE-IPO SHARE OPTION SCHEME

The Company has adopted the Pre-IPO Share Option Scheme on 20 December 2010 (as supplemented and amended by an addendum on 25 September 2012). There was no outstanding option under the Pre-IPO Share Option Scheme at the beginning of the reporting period and no option was granted during the period under review. Thus, there was no outstanding option under the Pre-IPO Share Option Scheme at the end of the reporting period.

Details of the Pre-IPO Share Option Scheme are stated in note 26 to the consolidated financial statements.

SHARE OPTION SCHEME

On 18 February 2013, the Company's Share Option Scheme was adopted. For the period ended 31 December 2016, no share options have been granted under the Share Option Scheme. Set out below are details of the movements of share options during the year ended 31 December 2016:

Grantees	Date of grant	Exercise price (HK$)	Closing price immediately before the date of grant	Options outstanding as at 1 January 2016	Options granted since 1 January 2016	Options exercised since 1 January 2016	Adjustment for rights issue completed on 8 July 2016	Options lapsed/ cancelled since 1 January 2016	Options outstanding as at 31 December 2016
Directors, chief executives and substantial shareholders									
Wang Jinlong	29 April 2014	2.3803 *(Note 1)*	2.44	102,173	–	– *(Note 2)*	7,308 *(Note 1)*	–	109,481
Zhao Jindong	29 April 2014	2.3803 *(Note 1)*	2.44	102,173	–	– *(Note 2)*	7,308 *(Note 1)*	–	109,481
	29 May 2015	1.2132 *(Note 1)*	1.28	2,500,000	–	– *(Note 3)*	178,833 *(Note 1)*	–	2,678,833
	26 October 2016	0.529	0.520	–	6,000,000	– *(Note 4)*	–	–	6,000,000
Ko Po Ming	29 April 2014	2.3803 *(Note 1)*	2.44	102,173	–	– *(Note 2)*	7,308 *(Note 1)*	–	109,481
Lee Tommy	29 April 2014	2.3803 *(Note 1)*	2.44	102,173	–	– *(Note 2)*	7,308 *(Note 1)*	–	109,481
Ma Hua	29 April 2014	2.3803 *(Note 1)*	2.44	102,173	–	– *(Note 2)*	7,308 *(Note 1)*	–	109,481
He Shenghou	29 April 2014	2.3803 *(Note 1)*	2.44	102,173	–	– *(Note 2)*	7,308 *(Note 1)*	–	109,481
Tong Hin Wor	29 April 2014	2.3803 *(Note 1)*	2.44	102,173	–	– *(Note 2)*	7,308 *(Note 1)*	–	109,481
Wong Lap Tat Arthur	29 April 2014	2.3803 *(Note 1)*	2.44	102,173	–	– *(Note 2)*	7,308 *(Note 1)*	–	109,481
Zeng Weizhong	1 December 2016	0.530	0.530	–	17,000,000	– *(Note 5)*	–	–	17,000,000
Employees and senior managements	29 April 2014	2.3803 *(Note 1)*	2.44	18,697,779	–	– *(Note 2)*	1,315,584 *(Note 1)*	306,521	19,706,842
	29 May 2015	1.2132 *(Note 1)*	1.28	56,600,000	–	– *(Note 3)*	3,962,913 *(Note 1)*	4,028,846	56,534,067
	26 October 2016	0.529	0.520	–	62,000,000	– *(Note 4)*	–	–	62,000,000
Others	29 April 2014	2.3803 *(Note 1)*	2.44	102,173	–	– *(Note 2)*	7,308 *(Note 1)*	–	109,481
	29 May 2015	1.2132 *(Note 1)*	1.28	100,000	–	– *(Note 3)*	7,153 *(Note 1)*	–	107,153
Total				78,817,336	85,000,000	–	5,530,255	4,335,367	165,012,224

Notes:

1. For details of the pro-rata adjustment to the exercise price and number of the shares falling to be issued under the outstanding share options of the Share Option Scheme, please refer to the section headed "Adjustment to the share options under the Share Option Scheme" of this annual report.

2. One third of the share options have been vested on the date falling on the first anniversary of the date of grant and exercisable from 29 April 2015 to 28 April 2019, both dates inclusive.

   Another one third of the share options have been vested on the date falling on the second anniversary of the date of grant and exercisable from 29 April 2016 to 28 April 2019, both dates inclusive.

   The remaining of the share options shall be vested on the date falling on the third anniversary of the date of grant and exercisable from 29 April 2017 to 28 April 2019, both dates inclusive.

3. 20% of the share options have been vested on the date falling on the first anniversary of the date of grant and exercisable from 29 May 2016 to 28 May 2022, both dates inclusive.

   Another 20% of the share options shall be vested on the date falling on the second anniversary of the date of grant and exercisable from 29 May 2017 to 28 May 2022, both dates inclusive.

   Another 20% of the share options shall be vested on the date falling on the third anniversary of the date of grant and exercisable from 29 May 2018 to 28 May 2022, both dates inclusive.

   Another 20% of the share options shall be vested on the date falling on the fourth anniversary of the date of grant and exercisable from 29 May 2019 to 28 May 2022, both dates inclusive.

   The remaining of the share options shall be vested on the date falling on the fifth anniversary of the date of grant and exercisable from 29 May 2020 to 28 May 2022, both dates inclusive.

4. 20% of the share options shall be vested on the date falling on the first anniversary of the date of grant and exercisable from 26 October 2017 to 25 May 2023, both dates inclusive.

   Another 20% of the share options shall be vested on the date falling on the second anniversary of the date of grant and exercisable from 26 October 2018 to 25 May 2023, both dates inclusive.

   Another 20% of the share options shall be vested on the date falling on the third anniversary of the date of grant and exercisable from 26 October 2019 to 25 May 2023, both dates inclusive.

   Another 20% of the share options shall be vested on the date falling on the fourth anniversary of the date of grant and exercisable from 26 October 2020 to 25 May 2023, both dates inclusive.

   The remaining of the share options shall be vested on the date falling on the fifth anniversary of the date of grant and exercisable from 26 October 2021 to 25 May 2023, both dates inclusive.

5. 20% of the share options shall be vested on the date falling on the first anniversary of the date of grant and exercisable from 1 December 2017 to 30 November 2023, both dates inclusive.

   Another 20% of the share options shall be vested on the date falling on the second anniversary of the date of grant and exercisable from 1 December 2018 to 30 November 2023, both dates inclusive.

   Another 20% of the share options shall be vested on the date falling on the third anniversary of the date of grant and exercisable from 1 December 2019 to 30 November 2023, both dates inclusive.

   Another 20% of the share options shall be vested on the date falling on the fourth anniversary of the date of grant and exercisable from 1 December 2020 to 30 November 2023, both dates inclusive.

   The remaining of the share options shall be vested on the date falling on the fifth anniversary of the date of grant and exercisable from 1 December 2021 to 30 November 2023, both dates inclusive.

(1) Purpose

The purpose of the Share Option Scheme is for the Group to attract, retain and motivate talented participants to strive for future developments and expansion of the Group. The Share Option Scheme shall be an incentive to encourage the participants to perform their best in achieving the goals of the Group and allow the participants to enjoy the results of the Company attained through their efforts and contributions.

(2) Eligible participants

The Board may, at its discretion, invite:

(i) any executive or non-executive Director including any independent non-executive Director or any employee (whether full-time or part-time) of any member of the Group;

(ii) any trustee of a trust (whether family, discretionary or otherwise) whose beneficiaries or objects include any employee or business associate of the Group;

(iii) any adviser or consultant (in the areas of legal, technical, financial or corporate management) to the Group;

(iv) any provider of goods and/or services to the Group; or

(v) any other person who the Board considers, in its sole discretion, has contributed to the Group to take up the share options.

In determining the basis of eligibility of each participant, the Board would take into account such factors as the Board may at its discretion consider appropriate.

(3) Total number of shares available for issue

The total number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option schemes of the Company shall not in aggregate exceed 100,000,000 shares, being 10% of the total number of Shares in issue at the time dealings in the Shares first commenced on the Stock Exchange and 5.79% of the issued Shares as at the date of this report.

(4) The maximum entitlement of each eligible participant

The total number of shares issued and to be issued upon the exercise of the options granted to each participant (including exercised, cancelled and outstanding options) in any 12-month period shall not exceed 1% of the total number of shares in issue.

(5) Option period

A share option may be exercised in accordance with the terms of the Share Option Scheme and such other terms and conditions upon which an option was granted, at any time during the option period after the option has been granted by the Board but in any event, not longer than 10 years from the date of grant.

(6) Minimum period for which an option must be held before it is vested

Unless otherwise determined by the Board and specified in the offer letter at the time of the offer of the share option, there are neither any performance targets that need to be achieved by the grantee before a share option can be exercised nor any minimum period for which a share option must be held before the share option can be exercised. Subject to the provisions of the Share Option Scheme and the Listing Rules, the Board may when making the offer of share options impose any conditions, restrictions or limitations in relation to the share option as it may at its absolute discretion think fit.

(7) Payment on acceptance of the option

Offer of a share option shall be deemed to have been accepted by the grantee when the duplicate of the relevant offer letter comprising acceptance of the share option duly signed by the grantee together with a remittance in favour of the Company of HK$1.00 by way of consideration for the grant thereof, is received by the Company within 28 days from the date of the offer.

(8) Basis of determining the exercise price

The exercise price for the Shares under the Share Option Scheme shall be a price determined by the Board at its sole discretion and notified to the participant and shall be no less than the highest of (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date on which a share option is granted, and (ii) the average closing prices of the Shares as stated in the Stock Exchange's daily quotation sheets for the 5 business days immediately preceding the date on which a share option is granted.

(9) The remaining life of the Share Option Scheme

The Share Option Scheme will remain valid and effective for a period of 10 years commencing on the date on which the Share Option Scheme is adopted, after which period no further share options will be granted but the provisions of the Share Option Scheme shall in all other respects remain in full force and effect and share options which are granted during the life of the Share Option Scheme may continue to be exercisable in accordance with their terms of issue.

The Directors consider that the values of the share options are subject to a number of assumptions and the limitation of the models.

Details of Share Option Scheme are stated in note 26 to the consolidated financial statements.

ADJUSTMENT TO THE SHARE OPTIONS UNDER THE SHARE OPTION SCHEME

On 8 July 2016, the Group completed the Rights Issue of 398,463,388 ordinary shares of the Company at HK$0.31 per right share and obtained net proceeds of approximately HK$120.0 million. As a result of the Rights Issue, pursuant to the terms of the Share Option Scheme, adjustments are required to be made to the exercise prices of and/or the number of Shares falling to be issued upon exercise of the outstanding vested and unvested Share Options.

The Company has calculated the necessary adjustments to the exercise prices of and the number of Shares falling to be issued upon exercise of the outstanding vested and unvested Share Options in accordance with the terms of the Share Option Scheme and the supplementary guidance issued by the Stock Exchange on 5 September 2005 regarding adjustment of share options under Rule 17.03(13) of the Listing Rules. The adjustments to the exercise prices of and the number of Shares falling to be issued upon exercise of the outstanding vested and unvested Share Options are as follows and became effective from 8 July 2016 upon the allotment and issue of the Rights Shares pursuant to the Rights Issue:

	Immediately prior to the adjustments as a result of completion of the Rights Issue		Immediately after the adjustments as a result of completion of the Rights Issue	
	Number of Shares falling to be issued upon exercise of the outstanding vested and unvested Share Options	Exercise price per Share (HK$)	Adjusted number of Shares falling to be issued upon exercise of the outstanding vested and unvested Share Options	Adjusted exercise price per Share (HK$)
Share Options granted on 29 April 2014	19,310,815	2.5506	20,692,171	2.3803
Share Options granted on 29 May 2015	58,000,000	1.3000	62,148,899	1.2132

In accordance with the note to paragraph 17.03(13) of the Listing Rules, the Directors engaged PricewaterhouseCoopers, the auditor of the Company, to perform certain factual finding procedures on the compilation of the adjustments to the exercise prices of and the number of Shares falling to be issued upon exercise of the outstanding vested and unvested Share Options in accordance with Hong Kong Standard on Related Services 4400 "Engagements to Perform Agreed-Upon Procedures Regarding Financial Information" issued by the Hong Kong Institute of Certified Public Accountants and the auditor of the Company has reported its factual findings to the Directors.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

During the year ended 31 December 2016, none of the Directors or any of their respective close associates, has engaged in any business that competes or may compete with the business of the Group, or has any other conflict of interest with the Group.

NON-COMPETITION UNDERTAKINGS BY CONTROLLING SHAREHOLDERS

A deed of non-competition undertaking dated 18 February 2013 (the "**Deed of Non-competition Undertaking**") was entered into among, inter alia, (i) Termbray Industries International (Holdings) Limited, Termbray Electronics (B.V.I.) Limited, Termbray Natural Resources Company Limited, Mr. Lee Lap, Mr. Lee Tommy and Lee & Leung (B.V.I.) Limited (collectively, the "**Termbray Controlling Shareholder Group**"); (ii) King Shine Group Limited, Mr. Wang Jinlong and Ms. Zhou Xiaojun (collectively, the "**King Shine Controlling Shareholder Group**"); and (iii) the Company.

The Company has received the annual confirmations from the Termbray Controlling Shareholder Group and the King Shine Controlling Shareholder Group that they have complied with the non-competition undertakings in the Deed of Non-competition Undertaking during the financial year ended 31 December 2016.

The independent non-executive Directors have reviewed the abovementioned undertakings and considered that the Termbray Controlling Shareholder Group and the King Shine Controlling Shareholder Group have complied with the Deed of Non-competition Undertaking during the financial year ended 31 December 2016.

AUDIT COMMITTEE

As at the date of the report, the audit committee of the Company comprises three independent non-executive Directors, namely Mr. Wong Lap Tat Arthur, Mr. Tong Hin Wor and Mr. He Shenghou. The principal duties of the audit committee of the Company are to review and approve our Group's financial reporting process, risk management and internal control system.

The audit committee of the Company has reviewed with the management about the accounting principles and practices adopted by the Group and discussed auditing, internal controls, risk management and financial reporting matters in connection with the preparation of the audited consolidated financial statements of the Company and its subsidiaries for the year ended 31 December 2016.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities for the year ended 31 December 2016.

RIGHTS ISSUE

On 8 July 2016, the Group completed the rights issue of 398,463,388 ordinary shares of the Company at HK$0.31 per rights share on the basis of three rights share for every ten existing shares held on 14 June 2016. The Group used the net proceeds from the rights issue as to approximately HK$90.0 million for repayment of bank and other borrowings, and as to the remaining (approximately HK$30.0 million) for general working capital purposes.

As a result of the Rights Issue, adjustments are required to be made to the exercise prices of and the number of the shares falling to be issued under the outstanding share options in accordance with the terms of the share option scheme adopted by the Company on 20 December 2010 (as supplemented and amended by an addendum on 25 September 2012) and the share option scheme adopted by the Company on 18 February 2013 and the supplementary guidance issued by The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 5 September 2005 regarding adjustment of share options under Rule 17.03(13) of the Listing Rules.

CONNECTED TRANSACTIONS

The Group has not entered into any connected transaction for the year which should be disclosed pursuant to the requirements of Chapter 14A of the Listing Rules.

CORPORATE GOVERNANCE

A report on the principal corporate governance practices adopted by the Company is set out on pages 23 to 31.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained the prescribed public float under the Listing Rules up to the date of this report.

ENVIRONMENTAL, SOCIAL AND CORPORATE RESPONSIBILITY

A report on the environmental, social and corporate responsibility adopted by the Company is set out on pages 19 to 22.

COMPLIANCE WITH LAWS AND REGULATIONS

The Group has strictly complied with the relevant laws and regulations and as far as the Board and the management of the Group are aware, there was no material breach of laws and regulations by the Group during the year.

PERMITTED INDEMNITY PROVISIONS

The Company has arranged appropriate liability coverage, for the Directors to insure against any losses and liabilities incurred by Directors for the year ended 31 December 2016.

AUDITOR

The consolidated financial statements have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

By Order of the Board
PETRO-KING OILFIELD SERVICES LIMITED
Wang Jinlong
Chairman

Hong Kong, 23 March 2017

* *For identification purpose only*

INDEPENDENT AUDITOR'S REPORT

羅兵咸永道

TO THE SHAREHOLDERS OF PETRO-KING OILFIELD SERVICES LIMITED
(Incorporated in the British Virgin Islands with limited liability)

OPINION

What we have audited

The consolidated financial statements of Petro-king Oilfield Services Limited (the "**Company**") and its subsidiaries (the "**Group**") set out on pages 64 to 158, which comprise:

- the consolidated statement of financial position as at 31 December 2016;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flow for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("**IFRSs**") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing ("**ISAs**"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("**IESBA Code**"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

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T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters identified in our audit are summarised as follows:

- Assessment of working capital sufficiency
- Goodwill impairment assessment
- Provision for impairment of trade receivables

Key Audit Matter	How our audit addressed the Key Audit Matter
Assessment of working capital sufficiency	
Refer to note 2.1 to the consolidated financial statements of the Group. During the year ended 31 December 2016, the Group reported a net loss attributable to owners of approximately HK$443,353,000 and net operating cash outflow of approximately HK$121,802,000. Management has prepared cash flow projections to evaluate the Group's ability to continue as a going concern. The cash flow projections have taken into account the anticipated cash flows to be generated from the Group's operations as well as the possible changes in its operating performance. Based on the cash flow projections, management has concluded that the Group will have adequate working capital to continue its operations and to meet its financial obligations as and when they fall due in the coming twelve months from 31 December 2016. As such, directors have determined that the use of the going concern basis of accounting continued to be appropriate. We focused on the evaluation of management's assessment of working capital sufficiency based on the cash flow projections as it involved the use of significant judgements and estimates.	Our procedures in relation to management's assessment of working capital sufficiency included: – Assessing the reasonableness of the anticipated cash flows to be generated from the Group's operations with reference to the basis of estimating sales from secured and estimated potential orders, projected margins and period to collect receivables from new orders; – Comparing the projected margins and period to collect receivables from new orders to historical results; – Comparing the current year actual cash flows with the prior year cash flow projections to consider if the projections included assumptions that were overly optimistic; – Checking, on a sample basis, the input data to management's cash flow projections underlying the assessment of working capital sufficiency to supporting evidence, such as approved budgets, sales contracts and recent receivable collections; and – Evaluating management's sensitivity analysis by considering possible adverse changes to the Group's operating performance. Based upon the above, we found that judgements used in management's assessment of working capital sufficiency based on the cash flow projections to be supported by available evidence.

Key Audit Matter (Continued)	How our audit addressed the Key Audit Matter (Continued)
Goodwill impairment assessment	
Refer to note 4 "critical accounting estimates and judgements" and note 7 "intangible assets" to the consolidated financial statements of the Group. As at 31 December 2016, the Group had goodwill before annual impairment review relating to the cash-generating units ("**CGUs**") of oilfield project tools and services and consultancy services of the Group of HK$420,749,000 and HK$95,456,000, respectively. Management performed annual impairment review in respect of the goodwill of the Group's CGUs using value-in-use calculations. Preparation of the value-in-use calculations supported by cash flow projections involved the use of significant management judgements with respect to the underlying assumptions, such as the average annual growth rates, the pre-tax discount rates and the long term growth rates. Based on the annual impairment review, an impairment charge of HK$213,859,000 was recognised in relation to the oilfield project tools and services CGU. We focused on this area due to the size of the Group's goodwill, the significance of the impairment charge and the material management judgements and estimates used to perform the impairment review.	Our procedures in relation to management's judgements and estimates used to perform the impairment review included: – Assessing the value-in-use calculations methodology used by management; – Comparing the current year actual financial performance and cash flows with the prior year projections to consider if the projections included assumptions that were overly optimistic; – Assessing the reasonableness of the key assumptions such as the average annual growth rates, the pre-tax discount rates and long-term growth rates, with reference to our knowledge of the business, the Group's past performance and available market data; and – Checking, on sample basis, the input data to supporting evidence, such as, approved budgets, management's profit forecasts and sales contracts. Based upon the above, we found the management's judgements used to perform impairment assessment of goodwill to be supported by available evidence.

Key Audit Matter (Continued)	How our audit addressed the Key Audit Matter (Continued)
Provision for impairment of trade receivables	
Refer to note 4 "critical accounting estimates and judgements" and note 12 "trade and other receivables, deposits and prepayments" to the consolidated financial statements of the Group. As at 31 December 2016, the Group had gross trade receivables of HK$810,964,000 and provision for doubtful receivables of HK$409,214,000. The Group generally allows a credit period of 90 days after invoice date to its customers. Customers in oilfield services industry generally have a slower settlement pattern and usually settle after the credit terms due to the extended life cycle of oilfield projects. Management performed the impairment assessment of trade receivables based on the information including but not limited to aging of trade receivables, past repayment history, subsequent settlement status, financial capability of the customers. We focused on this area due to the size of the trade receivables and the provision for doubtful receivables recognised, and significant judgements used to evaluate customers' repayment ability and creditability.	Our procedures in relation to management's impairment assessment of trade receivables included: – Understanding the status of each of the material receivables that were past due through discussion with management and the sales team; – Checking the ageing profile of the material receivables as at 31 December 2016 and the corresponding post year-end settlements, on a sample basis, to underlying financial records; and – Corroborating management's assessment and explanations on the material receivables that were past due as at 31 December 2016 with supporting evidence, such as payment history of the customers, correspondences with customers, public search of the customers' profiles as we evaluate management's judgements over the recoverability of the relevant trade receivables. Based upon the above, we found the management's judgements used to perform the impairment assessment of trade receivables to be supported by available evidence.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Audit committee is responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with audit committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide audit committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with audit committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Lam Hiu Yam, Winnie.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 23 March 2017

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	2016 HK$'000	2015 HK$'000
		As at 31 December	
ASSETS			
Non-current assets			
Property, plant and equipment	*6*	**605,608**	757,928
Intangible assets	*7*	**304,435**	520,485
Land use rights	*8*	**9,926**	25,442
Available-for-sale financial asset	*9*	**7,421**	32,486
Other receivables, deposits and prepayments	*12(b)*	**44,975**	147,724
Deferred tax assets	*20*	**7,634**	13,640
		979,999	1,497,705
Current assets			
Inventories	*11*	**170,816**	242,719
Trade receivables	*12(a)*	**401,750**	467,088
Other receivables, deposits and prepayments	*12(b)*	**83,533**	89,522
Current income tax recoverable		**3,268**	3,249
Pledged bank deposits	*13*	**4,234**	147,685
Restricted bank balance	*14*	**5,581**	5,959
Cash and cash equivalents	*14*	**44,927**	46,592
		714,109	1,002,814
Assets classified as held for sale	*15*	**29,400**	–
		743,509	1,002,814
Total assets		**1,723,508**	2,500,519
EQUITY AND LIABILITIES			
Equity attributable to owners of the Company			
Share capital	*16*	**2,001,073**	1,879,966
Other reserves	*17*	**15,061**	36,268
Accumulated losses		**(782,294)**	(338,941)
		1,233,840	1,577,293
Non-controlling interests		**2,840**	2,011
Total equity		**1,236,680**	1,579,304

	Note	As at 31 December 2016 HK$'000	2015 HK$'000
LIABILITIES			
Non-current liabilities			
Bank and other borrowings	*19*	**178,030**	174,746
Deferred tax liabilities	*20*	**6,360**	11,246
		184,390	185,992
Current liabilities			
Trade payables	*18(a)*	**174,210**	310,967
Other payables and accruals	*18(b)*	**109,378**	212,943
Current income tax liabilities		**2,217**	1,826
Bank and other borrowings	*19*	**16,633**	209,487
		302,438	735,223
Total liabilities		**486,828**	921,215
Total equity and liabilities		**1,723,508**	2,500,519

The notes on pages 71 to 158 are an integral part of these consolidated financial statements.

The consolidated financial statements on pages 64 to 158 were approved by the Board of Directors on 23 March 2017 and were signed on its behalf.

Mr. Wang Jinlong
Director

Mr. Zhao Jindong
Director

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Year ended 31 December 2016 HK$'000	2015 HK$'000
Revenue	5	**392,442**	631,014
Other income	21	**1,912**	563
Operating costs			
Material costs	11	**(165,592)**	(215,925)
Depreciation of property, plant and equipment	6	**(93,721)**	(86,266)
Amortisation of intangible assets and land use rights	7,8	**(1,768)**	(1,712)
Operating lease rental		**(10,357)**	(14,529)
Employee benefit expenses	22	**(112,106)**	(168,346)
Distribution expenses		**(13,008)**	(14,670)
Technical service fees		**(24,674)**	(111,697)
Research and development expenses		**(12,066)**	(19,274)
Entertainment and marketing expenses		**(12,391)**	(15,657)
Provision for impairment of trade receivables, net	12	**(16,077)**	(182,148)
Other expenses	23	**(76,396)**	(78,453)
Impairment loss of goodwill	7	**(213,859)**	–
Impairment loss of an available-for-sale financial asset	9	**(28,868)**	–
Foreign exchange losses, net	29	**(14,896)**	(86,101)
Other (losses)/gains, net	24	**(15,457)**	19,013
Operating loss		**(416,882)**	(344,188)
Finance income	27	**486**	3,370
Finance costs	27	**(24,555)**	(51,490)
Finance costs, net		**(24,069)**	(48,120)
Share of loss of a joint venture		**(241)**	–
Loss before income tax		**(441,192)**	(392,308)
Income tax (expense)/credit	28	**(4,155)**	549
Loss for the year		**(445,347)**	(391,759)
Other comprehensive (loss)/income			
Items that have been or may be subsequently reclassified to profit or loss:			
Change in fair value of an available-for-sale financial asset	9	**(25,065)**	(3,803)
Reclassification of revaluation reserve of an available-for-sale financial asset	9	**28,868**	–
Currency translation differences			
– Group	17	**(34,581)**	(57,452)
– Recycling upon disposal of equity interest in a subsidiary	17	**–**	(250)
Other comprehensive loss for the year, net of tax		**(30,778)**	(61,505)
Total comprehensive loss for the year		**(476,125)**	(453,264)

		Year ended 31 December	
	Note	**2016**	2015
		HK$'000	HK$'000
Loss for the year attributable to:			
Owners of the Company		**(443,353)**	(384,342)
Non-controlling interests		**(1,994)**	(7,417)
		(445,347)	(391,759)
Total comprehensive loss for the year attributable to:			
Owners of the Company		**(474,131)**	(444,464)
Non-controlling interests		**(1,994)**	(8,800)
		(476,125)	(453,264)
Loss per share attributable to owners of the Company during the year	*30*		(As restated)
Basic loss per share (HK cents)		**(29)**	(31)
Diluted loss per share (HK cents)		**(29)**	(31)

The notes on pages 71 to 158 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to owners of the Company					
	Share capital	Other reserves *(Note 17)*	Accumulated losses	Total	Non-controlling interests	Total equity
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Balance at 1 January 2016	1,879,966	36,268	(338,941)	1,577,293	2,011	1,579,304
Comprehensive loss						
Loss for the year	–	–	(443,353)	(443,353)	(1,994)	(445,347)
Other comprehensive loss						
Change in fair value of an available-for-sale financial asset *(Note 9)*	–	(25,065)	–	(25,065)	–	(25,065)
Reclassification of revaluation reserve to profit or loss *(Note 9)*	–	28,868	–	28,868	–	28,868
Currency translation differences	–	(34,581)	–	(34,581)	–	(34,581)
Total other comprehensive loss for the year, net of tax	–	(30,778)	–	(30,778)	–	(30,778)
Total comprehensive loss for the year	–	(30,778)	(443,353)	(474,131)	(1,994)	(476,125)
Transactions with owners in their capacity as owners						
Issuance of ordinary shares from rights issue *(Note 16)*	121,107	–	–	121,107	–	121,107
Recognition of share-based payment	–	11,842	–	11,842	–	11,842
Changes in ownership interests in subsidiaries without change of control	–	(2,271)	–	(2,271)	2,823	552
Total transactions with owners, recognised directly in equity	121,107	9,571	–	130,678	2,823	133,501
Balance at 31 December 2016	2,001,073	15,061	(782,294)	1,233,840	2,840	1,236,680

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to owners of the Company					
	Share capital	Other reserves *(Note 17)*	Retained earnings/ (accumulated losses)	Total	Non-controlling interests	Total equity
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Balance at 1 January 2015	1,658,187	51,761	41,680	1,751,628	43,300	1,794,928
Comprehensive loss						
Loss for the year	–	–	(384,342)	(384,342)	(7,417)	(391,759)
Other comprehensive loss						
Change in fair value of an available-for-sale financial asset *(Note 9)*	–	(3,803)	–	(3,803)	–	(3,803)
Currency translation differences						
– Group	–	(56,069)	–	(56,069)	(1,383)	(57,452)
– Recycling upon disposal of equity interest in a subsidiary	–	(250)	–	(250)	–	(250)
Total other comprehensive loss for the year	–	(60,122)	–	(60,122)	(1,383)	(61,505)
Total comprehensive loss for the year	–	(60,122)	(384,342)	(444,464)	(8,800)	(453,264)
Transactions with owners in their capacity as owners						
Issuance of ordinary shares from rights issue *(Note 16)*	147,930	–	–	147,930	–	147,930
Issuance of new ordinary shares *(Note 16)*	73,849	–	–	73,849	–	73,849
Issuance of convertible bonds *(Note 19(c))*	–	28,462	–	28,462	–	28,462
Recognition of share-based payment	–	19,888	–	19,888	–	19,888
Disposal of equity interest in a subsidiary	–	(3,721)	3,721	–	(32,489)	(32,489)
Total transactions with owners, recognised directly in equity	221,779	44,629	3,721	270,129	(32,489)	237,640
Balance at 31 December 2015	1,879,966	36,268	(338,941)	1,577,293	2,011	1,579,304

The notes on pages 71 to 158 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Year ended 31 December 2016 HK$'000	2015 HK$'000
Cash flows from operating activities			
Cash (used in)/generated from operations	*32(a)*	**(115,262)**	67,733
Interest paid		**(4,554)**	(17,257)
Income tax (paid)/refunded		**(1,986)**	13,512
Net cash (used in)/generated from operating activities		**(121,802)**	63,988
Cash flows from investing activities			
Prepayment of property, plant and equipment		**–**	(1,876)
Purchases of property, plant and equipment		**(35,425)**	(77,745)
Proceeds from disposal on equity interest of subsidiaries, net of cash disposed, if any		**552**	69,025
Cash acquired from acquisition of a subsidiary		**52**	–
Investment in a joint venture		**(5,905)**	–
Deposits received from sales of asset held for sale	*18(b)*	**13,394**	–
Refund of prepayment for property, plant and equipment		**84,761**	–
Proceeds from disposal of property, plant and equipment	*32(b)*	**14,496**	2,206
Interest received	*27*	**486**	1,990
Decrease in pledged bank deposits		**143,524**	50,404
Net cash generated from investing activities		**215,935**	44,004
Cash flows from financing activities			
Proceeds from bank borrowings		**131,342**	238,924
Repayments of bank borrowings		**(319,750)**	(722,443)
Repayments of finance lease liabilities		**(5,979)**	(3,224)
Repayments of convertible bonds	*19(c)*	**(7,872)**	(3,957)
Net proceeds from issuance of convertible bonds	*19(c)*	**–**	153,860
Net proceeds from rights issue	*16*	**121,107**	147,930
Net proceeds from issuance of ordinary shares		**–**	73,849
Net repayments to related parties		**(10,487)**	(3,248)
Net cash used in financing activities		**(91,639)**	(118,309)
Net increase/(decrease) in cash and cash equivalents		**2,494**	(10,317)
Cash and cash equivalents at beginning of year, net of bank overdraft		**43,924**	55,339
Exchange losses on cash and cash equivalents		**(1,491)**	(1,098)
Cash and cash equivalents at end of year, net of bank overdraft	*14*	**44,927**	43,924

The notes on pages 71 to 158 are an integral part of these consolidated financial statements.

1 GENERAL INFORMATION

Petro-king Oilfield Services Limited (the "**Company**") was incorporated in British Virgin Islands on 7 September 2007 as an exempted company with limited liability. The address of the Company's registered office is at Commerce House, Wickhams Cay 1, P.O. Box 3140, Road Town, Tortola, British Virgin Islands ("**B.V.I.**").

The Company is an investment holding company and its subsidiaries (together "**the Group**") are principally engaged in the provision of oilfield technology and oilfield services covering various stages in the life of an oilfield including drilling, well completion and production enhancement with ancillary activities in trading and manufacturing of oilfield services related products.

The Company has its primary listing on Main Board of The Stock Exchange of Hong Kong Limited on 6 March 2013.

These consolidated financial statements are presented in Hong Kong dollars ("**HK$**"), unless otherwise stated.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with all applicable International Financial Reporting Standards ("**IFRS**"). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of an available-for-sale financial asset, which is carried at fair value.

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

During the year ended 31 December 2016, the Group reported a net loss attributable to owners of approximately HK$443,353,000 and a net operating cash outflow of approximately HK$121,802,000.

As at 31 December 2016, the Group had cash and cash equivalents of HK$44,927,000 and total borrowings of HK$194,663,000, of which HK$16,633,000 will be due in the coming twelve months.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

During the year ended 31 December 2016, the Group completed a number of transactions to reduce its gearing and strengthen the Group's working capital, including, (i) completion of rights issue of the Company's shares in July 2016 which raised net proceeds of approximately HK$121,107,000; (ii) recovery of certain prepayments for purchase of equipment of HK$84,761,000; and (iii) disposal of land use right in the PRC at a consideration of HK$20,017,000, of which a deposit of approximately HK$13,394,000 was received. Furthermore, the Group has implemented measures to contain operating and capital expenditures. These measures together with the cash inflows from the aforementioned transactions and collection of pledged bank deposits of HK$136,350,000 funded the repayment of borrowings during the year ended 31 December 2016 of approximately HK$202,259,000.

The directors of the Company have reviewed the Group's cash flow projections prepared by management which cover a period of twelve months from 31 December 2016. A number of measures have been put in place by the directors of the Company to further improve the financial position and alleviate the liquidity pressure, as set out below:

(i) The Group continues its efforts to strengthen its working capital position by expediting collection of outstanding trade receivables, diversify its revenue source to new markets, including in the Middle East, to generate cash from new sales or service contracts, and implement measures to further control capital and operating expenditures.

(ii) The Group aims to maintain its gearing at a low level to save borrowing costs and utilise future operating cash flows for repayment of its obligations as and when they fall due.

(iii) The Group has agreed to dispose certain machineries for approximately HK$20,829,000 and planned to dispose other machineries for approximately HK$11,637,000.

(iv) The Group has started to negotiate with various financial institutions and identify options for raising additional finance.

Based on the cash flow projections and taking into account the anticipated cash flows to be generated from the Group's operations as well as the possible changes in its operating performance, the Group will have sufficient working capital to meet its financial obligations as and when they fall due in the coming twelve months from 31 December 2016. Accordingly, the directors of the Company consider that it is appropriate to prepare the consolidated financial statements on a going concern basis.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

2.1.1 Changes in accounting policies and disclosures

(a) New and amended standards adopted by the Group

The following new standards and amendments to standards are effective for annual periods beginning on or after 1 January 2016, and have been adopted in preparing these consolidated financial statements:

		Effective for annual periods beginning on or after
IAS 1 (Amendment)	Disclosure initiative	1 January 2016
IAS 16 and IAS 38 (Amendment)	Clarification of acceptable methods of depreciation and amortisation	1 January 2016
IAS 16 and IAS 41 (Amendment)	Agriculture: Bearer plants	1 January 2016
IAS 27 (Amendment)	Equity method in separate financial statements	1 January 2016
IFRS 10, IFRS 12 and IAS 28 (Amendment)	Investment entities: Applying the consolidation exception	1 January 2016
IFRS 11 (Amendment)	Accounting for acquisitions of interests in joint operations	1 January 2016
IFRS 14	Regulatory deferral accounts	1 January 2016
Annual improvements project	Annual improvements 2012 – 2014 cycle	1 January 2016

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

2.1.1 Changes in accounting policies and disclosures (Continued)

(b) New accounting standards and amendments to existing standards that are not yet effective and have not been early adopted by the Group

The following new standards and amendments to standards have been issued but not effective for the financial year end beginning on 1 January 2016, and have not been early adopted in preparing these consolidated financial statements:

		Effective for annual periods beginning on or after
IFRS 10 and IAS 28 (Amendment)	Sale or contribution of assets between an investor and its associate or joint venture	A date to be determined by the IASB
IAS 7 (Amendment)	Disclosure initiative	1 January 2017
IAS 12 (Amendment)	Recognition of deferred tax assets for unrealised losses	1 January 2017
IFRS 2 (Amendment)	Classification and measurement of share-based payment transactions	1 January 2018
IFRS 9	Financial instruments	1 January 2018
IFRS 15	Revenue from contracts with customers	1 January 2018
IFRS 16	Leases	1 January 2019

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Subsidiaries

2.2.1 Consolidation

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

(a) Business combinations

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis. Non-controlling interests in the acquire that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured at either fair value or the present ownership interest's proportionate share of the recognised amounts of acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by IFRS.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in consolidated statement of comprehensive income.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the consolidated statement of comprehensive income (Note 2.7).

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Subsidiaries (Continued)

2.2.1 Consolidation (Continued)

(b) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in a loss of control are accounted for as equity transactions – that is, as transactions with the owners of the subsidiary in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying amount of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(c) Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

2.2.2 Separate financial statement

Investments in subsidiaries are accounted for at cost less impairment. Cost also includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statement exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2.3 Joint arrangements

The Group has applied IFRS 11 to all joint arrangements. Under IFRS 11 investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations each investor. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures. Joint ventures are accounted for using the equity method.

Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses and movements in other comprehensive income.

Unrealised gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.4 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker ("**CODM**") is responsible for allocating resources and assessing performance of the operating segments.

2.5 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the 'functional currency'). The consolidated financial statements are presented in HK$, which is the Company's functional currency and the Company's and the Group's presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of comprehensive income.

Foreign exchange gains and losses that relate to bank borrowings and cash and cash equivalents are presented in the consolidated statement of comprehensive income within 'finance income and costs'. All other foreign exchange gains and losses are presented in the consolidated statement of comprehensive income.

(c) Group companies

The results and financial position of all the Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

(ii) income and expenses for each statements of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(iii) all resulting exchange differences are recognised in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Exchange differences arising are recognised in other comprehensive income.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.5 Foreign currency translation (Continued)

(d) Disposal of foreign operation and partial disposal

On the disposal of a foreign operation (that is, a disposal involving loss of control over a subsidiary that includes a foreign operation), all of the currency translation differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

In the case of a partial disposal that does not result in the group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated currency translation differences are re-attributed to non-controlling interests and are not recognised in profit or loss.

2.6 Property, plant and equipment

Property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the consolidated statement of comprehensive income during the financial period in which they are incurred.

Depreciation of property, plant and equipment are calculated using the straight-line method to allocate their cost to their residual value over its estimated useful lives, as follows:

Leasehold improvements	Shorter of lease term or useful life of 5 years
Buildings	Shorter of lease term or useful life of 50 years
Plant and machineries	5 – 10 years
Motor vehicles	5 – 10 years
Computer equipment	3 – 5 years
Furniture and fixtures	3 – 5 years

The assets' residual values and useful lives are revised and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.8).

Construction in progress represents property, plant and equipment under construction or pending installation and is stated at cost less impairment losses, if any. No depreciation is made on assets under construction in progress until such time as the relevant assets are completed and available for their intended use.

Gains and losses on disposal are determined by comparing the proceeds with carrying amounts and are recognised within 'other (losses)/gains, net' in the consolidated statement of comprehensive income.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.7 Intangible assets and land use rights

(a) Goodwill

Goodwill arises on the acquisition of subsidiaries represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identified net assets acquired.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("**CGUs**"), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the reportable segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the CGU containing the goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

(b) Computer software

Intangible assets comprised acquired computer software licenses which are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives of 5 years.

(c) Land use rights

Land use rights acquired in a business combination are recognised at fair value at the acquisition date. The land use rights have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method over the expected life of the land use rights of approximately 50 years.

2.8 Impairment of non-financial assets

Assets that have an indefinite useful life for example, goodwill, are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash. Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.9 Non-current assets (or disposal groups) held-for-sale

Non-current assets (or disposal groups) are classified as held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. The non-current assets (except for certain assets as explained below), (or disposal groups), are stated at the lower of carrying amount and fair value less costs to sell. Deferred tax assets, assets arising from employee benefits, financial assets (other than investments in subsidiaries and associates) and investment properties, which are classified as held for sale, would continue to be measured in accordance with the policies set out as elsewhere in Note 2.

2.10 Financial assets

2.10.1 Classification

The Group classifies its financial assets in the following categories: loans and receivables and available-for-sale financial asset. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in 'current assets', except for the amounts that are settled or expected to be settled more than 12 months after the end of the reporting period. These are classified as 'non-current assets'. The Group's loans and receivables comprise 'trade and other receivables' (Note 2.13), 'cash and cash equivalents' (Note 2.14), "restricted bank balance" and 'pledged bank deposits' (Note 2.15) in the consolidated statement of financial position.

(b) Available-for-sale financial asset

Available-for-sale financial asset is non-derivative that is either designated in this category or not classified in any of the other categories. It is included in non-current asset unless the investment mature or management intend to dispose of it within 12 months from the end of the reporting period.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.10 Financial assets (Continued)

2.10.2 Recognition and measurement

Regular way purchases and sales of financial assets are recognised on the trade-date – the date on value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Changes in the fair value of financial asset classified as available-for-sale are recognised in other comprehensive income.

When financial asset classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the statement of comprehensive income.

2.10.3 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

2.11 Impairment of financial assets

(a) Assets carried at amortised cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.11 Impairment of financial assets (Continued)

(a) Assets carried at amortised cost (Continued)

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated statement of comprehensive income. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated statement of comprehensive income.

(b) Assets classified as available-for-sale

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired.

For equity investments, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the consolidated statement of comprehensive income. Impairment losses recognised in the consolidated statement of comprehensive income on equity instruments are not reversed through the consolidated statement of comprehensive income.

2.12 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.13 Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

2.14 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with bank, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts, if any. In consolidated statement of financial position, bank overdrafts are shown within bank and other borrowings in current liabilities.

2.15 Pledged bank deposits and restricted bank balance

Pledged bank deposits represent the amounts of cash pledged as collateral to the banks for project bidding, issuing performance bonds or providing additional financing.

Pledge bank deposits and restricted bank balance are separately presented from cash and cash equivalents.

2.16 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.17 Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade and other payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.18 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated statement of comprehensive income over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of reporting period.

2.19 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in consolidated statement of comprehensive income in the period in which they are incurred.

2.20 Government grants

Grants from the government are recognised at their fair value where there is reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the consolidated statement of comprehensive income over the period necessary to match them with the costs that they are intended to compensate.

2.21 Compound financial instruments

Compound financial instruments issued by the Group comprise convertible bonds that can be converted to share capital at the option of the holder, and the number of shares to be issued does not vary with changes in their fair value.

The liability component of a compound financial instrument is recognised initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognised initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component, which is included in other reserve in the equity. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.21 Compound financial instruments (Continued)

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortised cost using the effective interest method. The equity component of a compound financial instrument is not re-measured subsequent to initial recognition except on conversion or expiry.

The liability component of a convertible instrument is classified as current unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

2.22 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity, respectively.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at balance sheet date in the countries where the Company and its group companies operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(b) Deferred income tax

Inside basis differences

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit and loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.22 Current and deferred income tax (Continued)

(b) Deferred income tax (Continued)

Outside basis differences

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and joint arrangements, except for deferred income liability where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future.

(c) Offsetting

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.23 Employee benefits

(a) Pension and employee social security and benefits obligations

(i) Hong Kong

The Group operates a Mandatory Provident Fund Scheme ("**MPF Scheme**") for the employees in Hong Kong, the assets of which are generally held in separate trustee-administered funds. The MPF Scheme is a master trust scheme established under trust arrangement and governed by laws in Hong Kong.

The Group pays fixed contributions into a trustee-administered fund. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

The Group pays contributions to the plan on a mandatory, contractual or voluntary basis. The contributions to the MPF Scheme are based on minimum statutory contribution requirement of the lower of 5% of eligible employees' relevant aggregate monthly income and HK$1,500. The Group has no further payment obligations once the contributions have been paid.

The contributions are recognised as employee benefit expense when they are due.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.23 Employee benefits (Continued)

(a) Pension and employee social security and benefits obligations (Continued)

(ii) Mainland China

The Group companies in the Mainland China participate in defined contribution retirement plans and other employee social security plans, including pension, medical, other welfare benefits, organised and administered by the relevant governmental authorities for employees in the Mainland China. The Group contributes to these plans based on certain percentages of the total salary of employees, subject to a certain ceiling, as stipulated by the relevant regulations.

The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(iii) Singapore

The Group company in Singapore participates in Central Provident Fund ("**CPF**"), which is a defined contribution pension scheme. Contributions to CPF schemes are recognised as an expense in the period in which the related service is performed.

(b) Bonus plans

The Group recognises a liability and an expense for bonuses based on a formula that takes into consideration the profit attributable to the Company's shareholders after certain adjustments. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

(c) Employee leave entitlements

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the end of reporting period.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.24 Share-based payment

(a) Equity-settled share-based payment transactions

The Group operates equity-settled, share-based compensation plans, under which the Group receives services from employees as consideration for equity instruments (options) of the Group.

The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted:

– including any market performance conditions (for example, an entity's share price); and

– excluding the impact of any service and non-market performance vesting conditions (for example, profitability, remaining an employee of the entity over a specified time period).

Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. In addition, in some circumstances employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognising the expense during the period between service commencement period and grant date. At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-marketing performance and service vesting conditions. It recognises the impact of the revision to original estimates, if any, in the consolidated statement of comprehensive income, with a corresponding adjustment to equity.

When the options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value).

(b) Share-based payment transactions among Group entities

The grant by the Company of options over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity in the parent entity accounts.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.25 Provisions

Provisions for environmental restoration, restructuring costs and legal claims are recognised when: the group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.26 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns and discounts after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured; when it is probable that the future economic benefits will flow to the Group and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measured until all contingencies relating to the activity have been resolved.

(a) Provision of oilfield project tools and services

The Group provides services on oilfield project in a wide range of areas at various stage in the life of an oilfield principally in drilling, well completion and production enhancement to its customers. The services mainly consist of providing oilfield development plan, procurement advice services and installation of tools and equipment and on-site project management.

Revenue from provision of oilfield project tools and services are recognised in the accounting period in which the services have been performed and accepted by the customers and collectability of the related receivables is reasonably assured.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.26 Revenue recognition (Continued)

(b) Provision of consultancy services

The Group provides consultancy services consisting of integrated project management services and supervisory services.

Integrated project management services comprise of engineering and designing overall development plan for an oilfield project, assisting and providing advice on sourcing, by way of invitation or open tender, oilfield project management services in different technical areas including drilling, well completion, downhole operation, oilfield equipment installation and production enhancement and providing on-site operational management, supervision, support and advice.

Supervisory services include management, supervision and technical support in specific technical areas in various stages of the oilfield project. Supervisory services mainly serve to ensure the operation in the specific technical areas of the project works in accordance with the execution plan approved by the customers. While some of the contracts for supervisory services require the Group to provide services to customers for a definite term, others require the Group to provide services for a specific operation within a project.

Revenue from provision for integrated project management services is recognised in the accounting period in which the services have been performed and are accepted by the customers and collectability of the related receivables is reasonably assured.

Revenue from provision for supervisory services is recognised in accounting period in which the services rendered and assessed on the basis of actual services provided.

(c) Rental income

Rental income is recognised on an accrual basis in accordance with the substance of the relevant agreement.

2.27 Interest income

Interest income is recognised using the effective interest method. When a loan and receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loan and receivables are recognised using the original effective interest rate.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.28 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated statement of comprehensive income on a straight-line basis over the period of the lease.

The Group leases certain property, plant and equipment. Leases of property, plant and equipment where the group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges. The corresponding rental obligations, net of finance charges, are included in other long-term payables. The interest element of the finance cost is charged to the statement of comprehensive income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset and the lease term.

2.29 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's and the Company's financial statements in the period in which the dividends are approved by the Company's shareholders or directors, where appropriate.

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, and cash flow and fair value interest rate risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Risk management is carried out by management under the direction of the directors and the major shareholders. Management has identified and evaluated financial risks in close cooperation with the major shareholders. Management reviews and approves principles for overall risk management, as well as policies and procedures covering specific areas, such as foreign exchange risk, interest rate risk, credit risk and liquidity risk. These policies and procedures enable management to make strategic and inform decision with regard to the operations of the Group.

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(a) Market risk

(i) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the United States dollar ("**US$**"), European dollar ("**Euro**") and the Chinese Renminbi ("**RMB**"). Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities which are denominated in currency that is not the entity's functional currency.

To manage the foreign exchange risk arising from future commercial transactions and recognised assets and liabilities, the Group mitigates the risk by maintaining US$, Euro and RMB bank accounts to pay for the transactions denominated in these currencies. The amounts of assets and liabilities denominated in each currency can be seen in the relevant notes.

At 31 December 2016, if HK$ had weakened/strengthened by 1% against the US$ with all other variables held constant, net post-tax loss for the year would have been approximately HK$3,145,000 lower/higher (2015: HK$2,857,000 lower/higher) as a result of foreign exchange gains or losses on translation of US$ denominated net financial assets.

At 31 December 2016, if HK$ had weakened/strengthened by 5% against Euro with all other variables held constant, net post-tax loss for the year would have been approximately HK$1,418,000 lower/higher (2015: HK$1,901,000 lower/higher) as a result of foreign exchange gains or losses on translation of Euro denominated net financial assets.

At 31 December 2016, if HK$ had weakened/strengthened by 5% against RMB with all other variables held constant, net post-tax loss for the year would have been approximately HK$3,198,000 lower/higher (2015: HK$10,610,000 lower/higher) as a result of foreign exchange gains or losses on translation of RMB denominated net financial assets.

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(a) Market risk (Continued)

(ii) Cash flow and fair value interest rate risk

The Group's interest rate risk arises from bank and other borrowings and pledged bank deposits. Borrowings issued at variable rates expose the Group to cash flow interest rate risk which is partially offset by cash held at variable rates. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. The Group currently does not hedge its exposure to cash flow and fair value interest rate risk. The Group analyses its interest rate exposure on a regular basis and will consider the interest rate exposure when enter into any financing, renewal of existing positions and alternative financing transactions.

The Group's practice is to manage its interest income/cost through monitoring and reviewing interest rate changes in the market and its impact to the Group's financial performance. During 2016, the Group's bank and other borrowings at variable rates were denominated in HK$, RMB and Singaporean dollar ("**SGD**"), while the Group's bank and other borrowings at variable rates were denominated in HK$, US$, RMB and SGD during 2015.

At 31 December 2016, if interest rate on bank and other borrowings and pledged bank deposits held at variable rates had been 100 basis points higher/lower with all other variables held constant, post-tax loss for the year would have been approximately HK$343,000 (2015: HK$848,000) higher/lower, mainly as a result of higher/lower interest expense on floating rate borrowings.

(b) Credit risk

Credit risk arises from cash and cash equivalents and pledged bank deposits, as well as credit exposures to the customers, including outstanding receivables and committed transactions. For banks and financial institutions, only independently rated parties with a good reputation are accepted. For credit exposures to the customers, management assesses the credit quality of the customer, taking into account its financial position, past experience and other factors.

Credit risk is managed at company level, except for credit risk relating to trade receivable balances. Each local entity is responsible for managing and analysing the credit risk for each of their new clients before standard payment and delivery terms and conditions are offered.

The Group has policies in place to ensure that sales of its services and products are made to customers with sufficient level of creditworthiness and the Group generally grants its customers a credit term of up to three months.

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

Individual credit evaluations are performed on all customers. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. The Group maintains different billing policies for different customers based on the negotiated terms with each customer. The Group will issue progress billing at different stages such as upon the signing of contracts and upon the delivery of products. The exact percentage of each part of payment and due date of payment varies from contract to contract. The Group negotiates with those debtors with overdue balances to agree a repayment schedule by both parties and regularly evaluates the credit quality of its debtors to assess the necessity to revise the credit term.

The Group has reviewed the credit risk exposure and the customers' expected pattern of settlement at year end. Considered certain customers of the Group faced deterioration in the credit ratings and worse off in the market parameters which indicates an increase in the credit default risk. In addition, the management has assessed the credit quality of customers on a case-by-case basis, taking into account the financial positions, historical record, amounts and timing of expected receipts and other factors. For those trade receivables where objective evidence of impairment exists, the amount of loss is measured as the difference between the carrying amount of the trade receivables and the present value of estimated recoverable future cash flows discounted at the borrowing rate of the relevant debtors.

The Group's consolidated results would be heavily affected by the financial capability of its debtors to fulfil their obligations with the Group. The Group's credit risk monitoring activities relating to the debtors include review of the credit profile, business prospects, background and their financial capacities. As at 31 December 2016, management has determined to record provision for doubtful receivables of HK$409,214,000 (2015: HK$412,262,000) which represents the impairment of trade receivables due from the Group's certain debtors.

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(c) Liquidity risk

The Group's management regularly monitors current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and long term.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Fair values of balances due on demand or less than 1 year appropriate their carrying balances as the impact of discounting is not significant.

	On demand or less than 1 year HK$'000	Between 1 and 2 years HK$'000	Between 2 and 5 years HK$'000	Over 5 years HK$'000	Total HK$'000
At 31 December 2016					
Trade payables	**174,210**	**–**	**–**	**–**	**174,210**
Other payables	**70,464**	**–**	**–**	**–**	**70,464**
Bank and other borrowings	**17,124**	**159,615**	**5,983**	**27,766**	**210,488**
	261,798	**159,615**	**5,983**	**27,766**	**455,162**
At 31 December 2015					
Trade payables	310,967	–	–	–	310,967
Other payables	146,981	–	–	–	146,981
Bank and other borrowings	210,817	15,462	160,921	32,896	420,096
	668,765	15,462	160,921	32,896	878,044

3 FINANCIAL RISK MANAGEMENT (Continued)

3.2 Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may price their services adequately in accordance with their pricing policy, secure access to financing at reasonable costs, obtain borrowings from financial institutions or related parties, and issue new shares or sell assets.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'current and non-current bank and other borrowings' as shown in the consolidated statement of financial position) less total cash (including 'pledged bank deposits', 'cash and cash equivalents' and 'restricted bank balance' as shown in the consolidated statement of financial position). Total capital is calculated as 'equity' as shown in the consolidated statement of financial position plus net debt.

Accordingly, the gearing ratios at 31 December 2016 and 2015 were as follows:

	2016 **HK$'000**	2015 HK$'000
Bank and other borrowings *(Note 19)*	**194,663**	384,233
Less:		
Pledged bank deposits *(Note 13)*	**(4,234)**	(147,685)
Cash and cash equivalents *(Note 14)*	**(44,927)**	(46,592)
Restricted bank balance *(Note 14)*	**(5,581)**	(5,959)
Net debt	**139,921**	183,997
Total equity	**1,236,680**	1,579,304
Total capital	**1,376,601**	1,763,301
Gearing ratio	**10%**	10%

3 FINANCIAL RISK MANAGEMENT (Continued)

3.3 Fair value estimation

The table below analyses financial instruments carried at fair value at 31 December 2016 and 2015, by valuation method. The different levels have been defined as follows:

– Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).

– Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).

– Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

	Level 3	
	2016	2015
	HK$'000	HK$'000
Asset		
Available-for-sale financial asset – listed equity security	**7,421**	32,486

There were no transfers among levels 1, 2 and 3 during the year.

The fair values of financial instruments that are not traded in an active market are determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. Since all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.

- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

The fair value of the listed equity security is determined based on cash flows discounted with the pre-tax discount rate (19%) (2015: 17%) which reflect specific risks related to the listed equity security. Management has taken into account the factor of minority interest in the fair value of the listed equity security.

3 FINANCIAL RISK MANAGEMENT (Continued)

3.3 Fair value estimation (Continued)

The following table presents the changes in level 3 instruments for the years ended 31 December 2016 and 2015.

	2016 HK$'000	2015 HK$'000
At 1 January	**32,486**	–
Addition	**–**	36,289
Change in fair value recognised in other comprehensive loss *(Note 9)*	**(25,065)**	(3,803)
At 31 December	**7,421**	32,486
Total losses for the year included in profit or loss at the end of the year	**(28,868)**	–
Changes in fair value for the year included in profit or loss at the end of the year	**(25,065)**	–

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) Estimated impairment of non-financial assets

The Group follows the guidance of IAS 36 "Impairment of Assets" to determine when assets, for example goodwill, are impaired, which requires significant judgment. In making this judgment, the Group evaluates, among other factors, the duration and extent to which the recoverable amount of assets is less than their carrying balance, including factors such as the industry performance and changes in operational and financing cash flows. The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy stated in Note 2.7. The recoverable amounts of CGUs have been determined based on value-in-use calculations. These calculations require the use of estimates.

During the year ended 31 December 2016, the Group recognised impairment loss on goodwill in relation to the oilfield project tools and services of HK$213,859,000 (2015: Nil). Please refer to Note 7 for more details.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

(b) Fair value of available-for-sale financial asset

The fair value of the available-for-sale financial asset is determined by using valuation techniques. The Group uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period. The Group uses discounted cash flow analysis for the available-for-sale financial asset that is not traded in the active market.

(c) Provision for impairment of trade receivables

Provision for impairment of trade receivables is determined based on the evaluation of collectability of these receivables. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, and in making this judgment, the Group evaluates, among other factors, the current creditworthiness and the past collection history for each customer and the current market conditions (Note 12).

(d) Provision for impairment of inventories

Provision for impairment of inventories is determined based on an assessment of the realisability of inventories. Provision for impairment of inventories are recorded where events or changes in circumstances that the balances may not be realised. The identification of provision requires the use of judgements and estimates. Where the expectation is different from the original estimate, such difference will impact carrying values of inventories and provision for impairment of inventories in the period which estimate has been changed.

(e) Recognition of deferred tax asset

At 31 December 2016 a deferred tax asset of HK$6,093,000 (2015: HK$11,095,000) in relation to unused tax losses was recognised in the consolidated financial statements. Estimating the deferred tax asset to be recognised requires a process that involves determining appropriate tax provisions, forecasting future years' taxable income and assessing the ability to utilise tax benefits through future earnings. In cases where the actual future profits generated are less than expected, a material reversal of the deferred tax asset may arise, which would be recognised in profit or loss for the period in which such a reversal takes place. The current financial models indicate that the tax losses can be utilised in the foreseeable future. Management believes that any reasonable changes in the model assumptions would not affect management's view. However, any unexpected changes in assumptions and estimates in tax regulations could affect the recoverability of this deferred tax asset in future.

5 SEGMENT INFORMATION

The Chief Operating Decision Maker ("**CODM**") has been identified as the Chief Executive Officer, vice president and directors of the Company who review the Group's internal reporting in order to assess performance and allocate resources. The CODM has determined the operating segments based on these reports.

The Group's operating segments, which are also the reportable segments, are entity or group of entities that offer different products and services.

They are also managed according to different nature of products and services. Most of these entities engaged in just single business, except a few entities deal with diversified operations. Financial information of these entities has been separated to present discrete segment information to be reviewed by the CODM.

During the year ended 31 December 2016, the CODM assessed the performance of the Group by reviewing the results of two reportable segments: oilfield project tools and services, and consultancy services, which is different from the segment categorisation in prior years, in order to align the segment review with the restructured internal management and reporting structure. The segment information of comparative year has been restated to conform to the current year categorisation.

(a) Revenue

Revenue recognised during the years ended 31 December 2016 and 2015 is as follows:

	2016	2015
	HK$'000	HK$'000
		(As restated)
Oilfield project tools and services		
– Drilling work	**24,146**	178,421
– Well completion work	**264,378**	282,328
– Production enhancement work	**52,272**	124,790
Total oilfield project tools and services	**340,796**	585,539
Consultancy services	**51,646**	45,475
Total revenue	**392,442**	631,014

5 SEGMENT INFORMATION (Continued)

(a) Revenue (Continued)

The segment information for the years ended 31 December 2016 and 2015 are as follows:

	Oilfield project tools and services HK$'000	Consultancy services HK$'000	Total HK$'000
Year ended 31 December 2016			
Total segment revenue	**340,796**	**51,646**	**392,442**
Inter-segment revenue	**–**	**–**	**–**
Revenue from external customers	**340,796**	**51,646**	**392,442**
Segment results	**(250,457)**	**34,615**	**(215,842)**
Net unallocated expenses			**(225,350)**
Loss before income tax			**(441,192)**
Other information:			
Amortisation of intangible assets	**(1,125)**	**–**	**(1,125)**
Depreciation	**(82,346)**	**–**	**(82,346)**
Provision for impairment of trade receivables, net *(Note 12)*	**(16,077)**	**–**	**(16,077)**
Impairment loss of goodwill *(Note 7)*	**(213,859)**	**–**	**(213,859)**
Losses on disposals of property, plant and equipment	**(14,897)**	**–**	**(14,897)**
Income tax expense	**(2,179)**	**–**	**(2,179)**
Year ended 31 December 2015 (As restated)			
Total segment revenue	585,539	45,475	631,014
Inter-segment revenue	–	–	–
Revenue from external customers	585,539	45,475	631,014
Segment results	(88,221)	30,479	(57,742)
Net unallocated expenses			(334,566)
Loss before income tax			(392,308)
Other information:			
Amortisation of intangible assets	(1,158)	–	(1,158)
Depreciation	(75,641)	–	(75,641)
(Provision)/reversal of provision for impairment of trade receivables, net *(Note 12)*	(185,751)	3,603	(182,148)
Gain on disposal of equity interest in a subsidiary *(Note 24)*	19,920	–	19,920
Losses on disposals of property, plant and equipment	(893)	–	(893)
Income tax expense	(2,433)	–	(2,433)

5 SEGMENT INFORMATION (Continued)

(a) Revenue (Continued)

The measurement of profit and loss and assets of the operating segments are the same as those described in the summary of significant accounting policies. The CODM evaluates the performance of the reportable segments based on a measure of revenue and revenue less all directly attributable costs.

A reconciliation of operating segments' results to total loss before income tax is provided as follows:

	2016 **HK$'000**	2015 HK$'000 (As restated)
Segment results	**(215,842)**	(57,742)
Other income	**1,912**	563
Depreciation of property, plant and equipment	**(11,375)**	(10,625)
Amortisation of intangible assets and land use rights	**(643)**	(554)
Operating lease rental	**(6,504)**	(9,909)
Employee benefit expenses	**(76,060)**	(116,632)
Entertainment and marketing expenses	**(12,043)**	(13,525)
Other expenses	**(53,850)**	(53,206)
Impairment loss of an available-for-sale financial asset	**(28,868)**	–
Foreign exchange losses, net	**(14,896)**	(86,101)
Other losses	**(560)**	(14)
Finance income	**486**	3,370
Finance costs	**(22,708)**	(47,933)
Share of loss of a joint venture	**(241)**	–
Loss before income tax	**(441,192)**	(392,308)

The segment results included material costs, technical service fees, depreciation, amortisation of intangible assets, distribution expenses, operating lease rental, employee benefit expenses, research and development expenses, entertainment and marketing expenses, provision for impairment of trade receivables, net, other expenses, impairment loss of goodwill, other losses and finance costs, allocated to each operating segment.

5 SEGMENT INFORMATION (Continued)

(b) Assets

The segment assets as at 31 December 2016 are as follows:

	Oilfield project tools and services HK$'000	Consultancy services HK$'000	Total HK$'000
As at 31 December 2016			
Segment assets	**1,355,504**	**136,774**	**1,492,278**
Unallocated assets			**231,230**
Total assets			**1,723,508**
Total assets include:			
Additions to non-current assets (other than financial instruments and deferred tax assets)	**23,492**	**–**	**23,492**

The segment assets as at 31 December 2015 are as follows:

	Oilfield project tools and services HK$'000	Consultancy services HK$'000	Total HK$'000
As at 31 December 2015 (As restated)			
Segment assets	1,958,752	143,625	2,102,377
Unallocated assets			398,142
Total assets			2,500,519
Total assets include:			
Additions to non-current assets (other than financial instruments and deferred tax assets)	79,804	–	79,804

5 SEGMENT INFORMATION (Continued)

(b) Assets (Continued)

The amounts provided to the CODM with respect to total assets are measured in a manner consistent with that of the consolidated financial statements. These assets are allocated based on the operations of the segment and the physical location of the assets.

Segment assets included property, plant and equipment, intangible assets, inventories, trade and other receivables, deposits and prepayments, pledged bank deposits and cash and cash equivalents.

Operating segments' assets are reconciled to total assets as follows:

	2016 **HK$'000**	2015 HK$'000 (As restated)
Segment assets for reportable segments	**1,492,278**	2,102,377
Unallocated assets		
– Unallocated available-for-sale financial asset	**7,421**	32,486
– Unallocated property, plant and equipment	**113,889**	116,471
– Unallocated land use rights	**9,926**	25,442
– Unallocated intangible assets	**525**	862
– Unallocated other receivables, deposits and prepayments	**17,867**	28,267
– Unallocated deferred tax assets	**7,634**	13,640
– Unallocated current income tax recoverable	**3,268**	3,249
– Unallocated pledged bank deposits	**–**	141,585
– Unallocated restricted bank balance	**5,581**	5,959
– Unallocated cash and cash equivalents	**35,719**	30,181
– Unallocated assets classified as held for sale	**29,400**	–
Total assets per consolidated statement of financial position	**1,723,508**	2,500,519

(c) Geographical information

The following table shows revenue generated from segment of oilfield project tools and services by geographical area according to location of the customers and revenue generated from segment of consultancy services by geographical area according to location of the customers' oilfields:

	2016 **HK$'000**	2015 HK$'000
The PRC	**266,052**	309,181
South America	**6,733**	9,700
The Middle East	**118,336**	259,062
Central Asia	**–**	21,126
Others	**1,321**	31,945
	392,442	631,014

5 SEGMENT INFORMATION (Continued)

(c) Geographical information (Continued)

The following table shows the non-current assets other than financial instruments and deferred tax assets by geographical segment according to the location where the assets are located:

	2016 HK$'000	2015 HK$'000
The PRC	721,305	1,181,871
South America	–	92,108
Singapore	57,437	67,356
The Middle East	185,005	108,926
Australia	74	119
	963,821	1,450,380

(d) Information about major customers

Revenues from customers contributing 10% or more of the total revenue of the Group are as follows:

	2016 HK$'000
Customer A	71,449
Customer B	50,925
Customer C	43,625
	165,999

	2015 HK$'000
Customer D	148,526
Customer B	113,278
Customer E	77,131
	338,935

All the customers contributing 10% or more of the total revenue of the Group are from the oilfield project tools and services segment.

6 PROPERTY, PLANT AND EQUIPMENT

	Construction in progress HK$'000	Buildings HK$'000	Leasehold improvements HK$'000	Plant and machineries HK$'000	Motor vehicles HK$'000	Computer equipment HK$'000	Furniture and fixtures HK$'000	Total HK$'000
At 1 January 2015								
Cost	51,746	120,386	2,825	695,712	19,517	8,813	12,630	911,629
Accumulated depreciation	–	(2,892)	(2,611)	(75,765)	(8,159)	(4,709)	(2,385)	(96,521)
Net book amount	51,746	117,494	214	619,947	11,358	4,104	10,245	815,108
Year ended 31 December 2015								
Opening net book amount	51,746	117,494	214	619,947	11,358	4,104	10,245	815,108
Additions	12,631	11,980	8,488	79,708	79	1,594	4,710	119,190
Depreciation	–	(6,575)	(620)	(74,377)	(2,072)	(1,218)	(1,404)	(86,266)
Monetary correction for hyperinflation	98	753	–	274	79	18	26	1,248
Transferred (out)/in	(56,785)	56,785	–	–	–	–	–	–
Disposals	–	–	(24)	(1,819)	(1,289)	(80)	(10)	(3,222)
Disposal of equity interest in a subsidiary	–	–	–	(2,646)	(189)	(95)	(78)	(3,008)
Written-off *(Note 24)*	–	–	–	(13)	–	(971)	–	(984)
Exchange differences	(5,118)	(28,321)	(80)	(45,089)	(3,318)	(676)	(1,536)	(84,138)
Closing net book amount	2,572	152,116	7,978	575,985	4,648	2,676	11,953	757,928
At 31 December 2015								
Cost	2,572	160,228	11,119	694,635	14,877	6,182	15,861	905,474
Accumulated depreciation	–	(8,112)	(3,141)	(118,650)	(10,229)	(3,506)	(3,908)	(147,546)
Net book amount	2,572	152,116	7,978	575,985	4,648	2,676	11,953	757,928

6 PROPERTY, PLANT AND EQUIPMENT (Continued)

	Construction in progress HK$'000	Buildings HK$'000	Leasehold improvements HK$'000	Plant and machineries HK$'000	Motor vehicles HK$'000	Computer equipment HK$'000	Furniture and fixtures HK$'000	Total HK$'000
Year ended 31 December 2016								
Opening net book amount	2,572	152,116	7,978	575,985	4,648	2,676	11,953	757,928
Additions	281	7,771	–	15,440	124	67	981	24,664
Depreciation	–	(7,471)	(1,516)	(79,846)	(1,459)	(837)	(2,592)	(93,721)
Transferred (out)/in	(1,878)	1,878	–	–	–	–	–	–
Disposals	–	(275)	–	(29,104)	(1,658)	(350)	–	(31,387)
Written-off *(Note 24)*	–	–	–	(1,533)	–	–	–	(1,533)
Provision for impairment *(Note 23)*	(538)	(422)	–	(3,072)	(53)	(14)	(21)	(4,120)
Transferred to assets held for sale *(Note 15)*	–	–	–	(15,830)	–	–	–	(15,830)
Exchange differences	(437)	(11,598)	(75)	(17,291)	(354)	(141)	(497)	(30,393)
Closing net book amount	–	141,999	6,387	444,749	1,248	1,401	9,824	605,608
At 31 December 2016								
Cost	–	158,208	10,736	614,427	7,590	5,100	15,259	811,320
Accumulated depreciation	–	(16,209)	(4,349)	(169,678)	(6,342)	(3,699)	(5,435)	(205,712)
Net book amount	–	141,999	6,387	444,749	1,248	1,401	9,824	605,608

Bank borrowings are secured by the building of a subsidiary of HK$43,673,000 (2015: HK$45,955,000) (Note 19).

6 PROPERTY, PLANT AND EQUIPMENT (Continued)

Plant and machineries includes the following amounts where the Group is a lessee under a finance lease:

	2016	2015
	HK$'000	HK$'000
Cost – capitalised finance leases	**22,458**	23,979
Accumulated depreciation	**(3,518)**	(1,389)
Net book amount	**18,940**	22,590

The Group leases plant and machinery under non-cancellable finance lease agreements. The lease terms are 3 years and ownership of the assets lie within the Group.

7 INTANGIBLE ASSETS

	Goodwill	Computer software	Total
	HK$'000	HK$'000	HK$'000
At 1 January 2015			
Cost	566,621	8,285	574,906
Accumulated amortisation and impairment	(4,486)	(3,108)	(7,594)
Net book amount	562,135	5,177	567,312
Year ended 31 December 2015			
Opening net book amount	562,135	5,177	567,312
Amortisation	–	(1,472)	(1,472)
Disposal of equity interest in a subsidiary	(41,010)	(47)	(41,057)
Exchange differences	(4,225)	(73)	(4,298)
Closing net book amount	516,900	3,585	520,485
At 31 December 2015			
Cost	520,687	8,210	528,897
Accumulated amortisation and impairment	(3,787)	(4,625)	(8,412)
Net book amount	516,900	3,585	520,485

7 INTANGIBLE ASSETS (Continued)

	Goodwill HK$'000	Computer software HK$'000	Total HK$'000
Year ended 31 December 2016			
Opening net book amount	516,900	3,585	520,485
Amortisation	–	(1,420)	(1,420)
Impairment loss	(213,859)	–	(213,859)
Exchange differences	(695)	(76)	(771)
Closing net book amount	302,346	2,089	304,435
At 31 December 2016			
Cost	520,687	8,210	528,897
Accumulated amortisation and impairment	(218,341)	(6,121)	(224,462)
Net book amount	302,346	2,089	304,435

Impairment test of goodwill

Management reviews the business performance on CGU basis. The goodwill is monitored by management at the CGU level. The following is a summary of goodwill allocation for each reportable segment:

	Opening HK$'000	Exchange differences HK$'000	Disposal of equity interest in a subsidiary HK$'000	Impairment HK$'000	Closing HK$'000
Year ended 31 December 2016					
Oilfield project tools and services	421,444	(695)	–	(213,859)	206,890
Consultancy services	95,456	–	–	–	95,456
	516,900	(695)	–	(213,859)	302,346
Year ended 31 December 2015 (As restated)					
Oilfield project tools and services	466,679	(4,225)	(41,010)	–	421,444
Consultancy services	95,456	–	–	–	95,456
	562,135	(4,225)	(41,010)	–	516,900

7 INTANGIBLE ASSETS (Continued)

Impairment test of goodwill (Continued)

The recoverable amount of these CGUs has been determined based on a value-in-use calculation. It is calculated using pre-tax cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below.

For each of the CGUs with significant amount of goodwill, the key assumptions including average annual growth rate, pre-tax discount rate and long term growth rate used in the value-in-use calculations in 2016 and 2015 are as follows:

Year ended 31 December 2016

	Oilfield project tools and services	**Consultancy services**
Average annual growth rate	**22%**	**16%**
Pre-tax discount rate	**19%**	**19%**
Long term growth rate	**3%**	**3%**

Year ended 31 December 2015 (As restated)

	Oilfield project tools and services	Consultancy services
Average annual growth rate	15%	15%
Pre-tax discount rate	19%	19%
Long term growth rate	3%	3%

These assumptions have been used for the analysis of each CGU within the operating segment.

The average annual growth rate used is based on past performance and the management's expectations of the market development.

The long term growth rates used are consistent with the forecasts included in industry reports. The discount rates used are pre-tax and reflect specific risks relating to the relevant operating segments.

The low oil price during the year ended 31 December 2016 has caused international oil companies to substantially cut their capital expenditure, and the oilfield services industry suffered. As a result, the Group's performance in relation to the oilfield project tools and services has been adversely affected. Based on the impairment assessment review, an impairment loss of HK$213,859,000 was recognised against the goodwill of the oilfield project tools and services during the year ended 31 December 2016.

As at 31 December 2016, the recoverable amount of the oilfield project tools and services business was lower than the carrying amount of the CGU. This shortfall leads to the recognition of impairment of goodwill during the year ended 31 December 2016.

8 LAND USE RIGHTS

	2016 HK$'000	2015 HK$'000
For the year ended 31 December		
Opening net book amount	**25,442**	27,624
Amortisation	**(348)**	(240)
Capitalisation in construction in progress	**–**	(300)
Transferred to assets held for sale *(Note 15)*	**(13,570)**	–
Exchange differences	**(1,598)**	(1,642)
Closing net book amount	**9,926**	25,442

9 AVAILABLE-FOR-SALE FINANCIAL ASSET

	2016 HK$'000	2015 HK$'000
Listed equity security in the PRC – non-current	**7,421**	32,486

Movement of the available-for-sale financial asset is as follows:

	2016 HK$'000	2015 HK$'000
At 1 January	**32,486**	–
Transfer from the disposal of the equity interest of a subsidiary	**–**	36,289
Change in fair value recognised in other comprehensive loss	**(25,065)**	(3,803)
At 31 December	**7,421**	32,486

The fair value of the available-for-sale financial asset is determined based on cash flows discounted with the pre-tax discount rate (19%) (31 December 2015: 17%) which reflect specific risks related to the listed equity security. Management has taken into account the factor of minority interest in the fair value of the listed equity security.

On 5 July 2016, the equity security was listed in the PRC with no quoted transaction price for the equity security since then. The fair value is within the level 3 of the fair value hierarchy (Note 3.3).

Due to a significant decline in fair value of the available-for-sale financial asset below its cost, an impairment loss of HK$28,868,000 was recognised in profit or loss for the year ended 31 December 2016.

10 FINANCIAL INSTRUMENTS BY CATEGORY

The accounting policies for financial instruments have been applied to the line items below:

	2016 HK$'000	2015 HK$'000
Assets as per consolidated statement of financial position		
Loans and receivables		
Trade receivables *(Note 12)*	**401,750**	467,088
Other receivables and deposits	**24,419**	27,307
Pledged bank deposits *(Note 13)*	**4,234**	147,685
Restricted bank balance *(Note 14)*	**5,581**	5,959
Cash and cash equivalents *(Note 14)*	**44,927**	46,592
Available-for-sale financial asset		
Listed equity security *(Note 9)*	**7,421**	32,486
Total	**488,332**	727,117
Liabilities as per consolidated statement of financial position		
Financial liabilities at amortised costs		
Trade payables *(Note 18)*	**174,210**	310,967
Other payables	**70,464**	146,981
Bank and other borrowings *(Note 19)*	**194,663**	384,233
Total	**439,337**	842,181

11 INVENTORIES

	2016 HK$'000	2015 HK$'000
Raw materials	**1,315**	3,996
Assembling materials	**156,695**	200,071
Work in progress	**5,609**	17,049
Finished goods	**7,197**	21,603
	170,816	242,719

For the year ended 31 December 2016, the cost of inventories recognised as expense and included in 'material costs' amounted to HK$165,592,000 (2015: HK$215,925,000).

For the year ended 31 December 2016, inventories with cost of HK$3,639,000 (2015: HK$5,553,000) were considered as obsolete and recorded provision for impairment. The amount has been included in 'other expenses' (Note 23).

12 TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

(a) Trade receivables

	2016	2015
	HK$'000	HK$'000
Trade receivables	**810,964**	879,350
Less: provision for impairment of trade receivables	**(409,214)**	(412,262)
Trade receivables – net	**401,750**	467,088

Ageing analysis of gross trade receivables by services completion and delivery date at the respective balance sheet dates is as follows:

	2016	2015
	HK$'000	HK$'000
Up to 3 months	**114,372**	102,419
3 to 6 months	**10,691**	121,797
6 to 12 months	**141,507**	197,443
Over 12 months	**544,394**	457,691
Trade receivables	**810,964**	879,350
Less: provision for impairment of trade receivables	**(409,214)**	(412,262)
Trade receivables – net	**401,750**	467,088

As at 31 December 2016, trade receivables of HK$287,378,000 (2015: HK$369,713,000) were past due but not impaired. The ageing analysis of these trade receivables by due date is as follows:

	2016	2015
	HK$'000	HK$'000
Up to 3 months	**10,691**	126,264
3 to 6 months	**121,251**	141,666
6 to 12 months	**50,895**	52,006
Over 12 months	**104,541**	49,777
	287,378	369,713

12 TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS (Continued)

(a) Trade receivables (Continued)

Long aged receivables that were past due but not impaired relate to customers that have good trade records without default history. Based on past experience and the credit quality of the counterparties, there is no evidence of impairment in respect of these balances and the balances are considered fully recoverable.

Before accepting any new customers, the Group entities apply an internal credit assessment policy to assess the potential customer's credit quality. Management closely monitors the credit quality of trade receivables and considers that the trade receivables to be of good credit quality since most counterparties are leaders in the oilfield industry with strong financial position and no history of defaults. The Group generally allows a credit period of 90 days after invoice date to its customers.

The fair values of trade receivables approximate to their carrying values.

The carrying amounts of trade receivables are denominated in the following currencies:

	2016	2015
	HK$'000	HK$'000
US$	**297,346**	236,577
RMB	**70,436**	185,307
Euro	**33,968**	45,204
	401,750	467,088

Management has assessed the credit quality of customers on a case-by-case basis, taking into account of the financial positions, historical record, amounts and timing of expected receipts and other factors. For customers with higher inherent credit risk, the Group increases the price premium of the transactions to manage the risk. The Group has reviewed the credit risk exposure and the customers' expected pattern of settlement at each year end.

12 TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS (Continued)

(a) Trade receivables (Continued)

Certain customers of the Group experienced significant and rapid deterioration in the credit ratings as well as other market parameters which indicated an increase in the credit default risk. Based on the above, at year end, management has determined to record a provision for doubtful receivables as at 31 December 2016 amounted to HK$409,214,000 (2015: HK$412,262,000). The ageing of these receivables by services completion or delivery date at the respective balance sheet dates is as follows:

	2016	2015
	HK$'000	HK$'000
6 to 12 months	**–**	1,847
Over 12 months	**409,214**	410,415
	409,214	412,262

Movement on the Group's allowance for impairment of trade receivables are as follows:

	2016	2015
	HK$'000	HK$'000
At 1 January	**412,262**	297,600
Provision for receivables impairment	**37,204**	198,863
Reversal of provision for receivables impairment	**(21,127)**	(16,715)
Written off of receivables	**(12,272)**	–
Exchange differences	**(6,853)**	(67,486)
As at 31 December	**409,214**	412,262

As at 31 December 2016, the recognition of provision for receivables impairment had been included in 'provision for impairment of trade receivables, net' of HK$16,077,000 (2015: HK$182,148,000).

12 TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS (Continued)

(b) Other receivables, deposits and prepayments

	2016 HK$'000	2015 HK$'000
Deposits and other receivables – third parties	**20,815**	18,427
Receivables on land bidding in the PRC	**2,232**	2,384
Value-added tax recoverable	**74,007**	82,753
Rental deposits	**902**	1,592
Cash advances to staff	**2,827**	7,864
Loans to staff *(Note (i))*	–	3,723
Advance to senior management *(Note 35(b))*	**470**	1,181
Prepayments for materials	**18,132**	23,191
Prepayments for rents and others	**3,687**	3,690
Prepayment for land use rights	**5,436**	5,804
Prepayment for property, plant and equipment	–	86,637
	128,508	237,246
Less:		
Non-current value-added tax recoverable	**(38,416)**	(54,084)
Non-current deposit – a third party	**(1,123)**	(1,199)
Non-current prepayment for land use rights	**(5,436)**	(5,804)
Non-current prepayment for property, plant and equipment	–	(86,637)
Non-current portion	**(44,975)**	(147,724)
Current portion	**83,533**	89,522

12 TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS (Continued)

(b) Other receivables, deposits and prepayments (Continued)

Note (i):

The loans are interest-free, unsecured, receivable in 1 year and approximate to their fair values. The amount has been fully settled during the year ended 31 December 2016.

The fair values of other receivables and deposits approximate to their carrying values. The carrying amounts of are denominated in the following currencies:

	2016	2015
	HK$'000	HK$'000
HK$	**10,419**	18,416
RMB	**112,679**	209,605
US$	**2,926**	3,411
SGD	**1,377**	3,299
Indonesian Rupiah ("**IDR**")	**1,070**	1,674
Others	**37**	841
	128,508	237,246

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above.

13 PLEDGED BANK DEPOSITS

Pledged bank deposits are pledged as security for the Group's borrowings, bidding and performance bonds.

	2016	2015
	HK$'000	HK$'000
Pledged bank deposits		
– Borrowings	**–**	136,350
– Bidding	**2,618**	6,100
– Performance bonds *(Note 33)*	**1,616**	5,235
	4,234	147,685

The carrying amounts of the Group's pledged bank deposits are denominated in the following currencies:

	2016	2015
	HK$'000	HK$'000
HK$	**–**	1,325
RMB	**4,234**	146,360
	4,234	147,685

Pledged bank deposits, which comprise short-term deposits, carry interest at effective interest rate 0.3% (2015: ranges from 0.3% to 3.8%) per annum. These deposits have an average maturity of 4.14 months (2015: 4.53 months) for the year.

As at 31 December 2016, Group has pledged bank deposits amounting to HK$4,234,000 (2015: HK$86,770,000) which are denominated in RMB and held in the PRC. These pledged bank deposits are subject to rules and regulations of foreign exchange control promulgated by the PRC Government.

14 CASH AND CASH EQUIVALENTS AND RESTRICTED BANK BALANCE

	2016 HK$'000	2015 HK$'000
Restricted bank balance *(Note (i))*	**5,581**	5,959
Cash at bank	**44,695**	46,250
Cash on hand	**232**	342
	50,508	52,551

The carrying amounts of the Group's cash and cash equivalents and restricted bank balance are denominated in the following currencies:

	2016 HK$'000	2015 HK$'000
US$	**15,911**	28,285
HK$	**1,007**	428
RMB	**31,586**	20,869
SGD	**1,608**	1,724
Others	**396**	1,245
	50,508	52,551

Cash and cash equivalents and bank overdrafts include the following for the purposes of the consolidated statement of cash flows:

	2016 HK$'000	2015 HK$'000
Cash and cash equivalents	**44,927**	46,592
Bank overdrafts	**–**	(2,668)
	44,927	43,924

14 CASH AND CASH EQUIVALENTS AND RESTRICTED BANK BALANCE (Continued)

As at 31 December 2016, Group has cash at bank and on hand amounting to HK$8,105,000 (2015: HK$6,287,000) which are denominated in different currencies and held in the PRC. These cash and bank balances are subject to rules and regulations of foreign exchange control promulgated by the PRC Government.

Note (i):

As at 31 December 2016, HK$5,581,000 are restricted deposits held at bank as a reserve under litigation claim (Note 33) (31 December 2015: HK$5,959,000).

15 ASSETS CLASSIFIED AS HELD FOR SALE

	2016	2015
	HK$'000	HK$'000
Transferred from property, plant and equipment *(Note (i))*	**15,830**	–
Transferred from land use rights *(Note (ii))*	**13,570**	–
	29,400	–

Note:

(i) On 12 October 2016 and 14 October 2016, the Group entered into agreements to transfer the ownership of certain machineries totaling HK$15,830,000 to an independent third party at an aggregate consideration of HK$17,155,000. The transfer was completed on 12 January 2017 (Note 6 and 38).

(ii) On 31 May 2016, the Group entered into an agreement to transfer the ownership of a land use right in the PRC with carrying amount of HK$13,570,000 (Note 8 and 38) to an independent third party. The consideration of the land use right amounted to HK$20,017,000, with a deposit of HK$13,394,000 received as at 31 December 2016. The transfer was completed on 10 January 2017.

16 SHARE CAPITAL

	Number of shares '000	Total HK$000
Issued and fully paid:		
At 1 January 2015	1,080,390	1,658,187
Rights issue of ordinary shares *(Note (i))*	154,341	147,930
Issuance of ordinary shares *(Note (ii))*	93,480	73,849
At 31 December 2015	1,328,211	1,879,966
Rights issue of ordinary shares *(Note (iii))*	398,463	121,107
At 31 December 2016	**1,726,674**	**2,001,073**

Notes:

(i) On 4 February 2015, the Group completed the rights issue of 154,341,000 ordinary shares of the Company at HK$0.98 per rights share and obtained net proceeds of HK$147,930,000.

(ii) On 30 December 2015, the Group completed the issuance of ordinary shares of 93,480,000 ordinary shares of the Company at HK$0.79 per share and obtained net proceeds of HK$73,849,000.

(iii) On 8 July 2016, the Group completed the rights issue of 398,463,000 ordinary shares of the Company at HK$0.31 per rights share and obtained net proceeds of HK$121,107,000.

17 OTHER RESERVES

	Translation reserve HK$'000	Statutory reserve *(Note)* HK$'000	Convertible bonds reserve HK$'000	Share-based payment reserve HK$'000	Capital reserve HK$'000	Available-for-sale financial asset reserve HK$'000	Total HK$'000
Balance at 1 January 2015	71,190	21,633	–	8,073	(49,135)	–	51,761
Other comprehensive loss							
Change in fair value of an available-for-sale financial asset *(Note 9)*	–	–	–	–	–	(3,803)	(3,803)
Currency translation differences							
– Group	(56,069)	–	–	–	–	–	(56,069)
– Recycling upon disposal of equity interest in a subsidiary	(250)	–	–	–	–	–	(250)
Total other comprehensive loss for the year	(56,319)	–	–	–	–	(3,803)	(60,122)
Total transactions with owners in their capacity as owners							
Issuance of convertible bonds *(Note 19(c))*	–	–	28,462	–	–	–	28,462
Recognition of share-based payment	–	–	–	19,888	–	–	19,888
Disposal of equity interest in a subsidiary	–	(3,721)	–	–	–	–	(3,721)
Total transactions with owners in their capacity as owners	–	(3,721)	28,462	19,888	–	–	44,629
Balance at 31 December 2015	14,871	17,912	28,462	27,961	(49,135)	(3,803)	36,268

17 OTHER RESERVES (Continued)

	Translation reserve HK$'000	Statutory reserve *(Note)* HK$'000	Convertible bonds reserve HK$'000	Share-based payment reserve HK$'000	Capital reserve HK$'000	Available-for-sale financial asset reserve HK$'000	Total HK$'000
Balance at 1 January 2016	**14,871**	**17,912**	**28,462**	**27,961**	**(49,135)**	**(3,803)**	**36,268**
Other comprehensive loss							
Change in fair value of an available-for-sale financial asset *(Note 9)*	–	–	–	–	–	(25,065)	(25,065)
Reclassification of revaluation reserve to profit or loss *(Note 9)*	–	–	–	–	–	28,868	28,868
Currency translation differences	(34,581)	–	–	–	–	–	(34,581)
Total comprehensive (loss)/ income for the year	(34,581)	–	–	–	–	3,803	(30,778)
Total transactions with owners in their capacity as owners							
Recognition of share-based payment	–	–	–	11,842	–	–	11,842
Changes in ownership interests in subsidiaries without change of control	–	–	–	–	(2,271)	–	(2,271)
Total transactions with owners in their capacity as owners	–	–	–	11,842	(2,271)	–	9,571
Balance at 31 December 2016	(19,710)	17,912	28,462	39,803	(51,406)	–	15,061

Note:

In accordance with the relevant laws and regulations in the PRC and Articles of Association of the companies incorporated in the Mainland China now comprising the Group, it is required to allocate at least 10% of their after-tax profit according to PRC accounting standard and regulations to the statutory reserve until such reserve has reached 50% of registered capital. Appropriations to the enterprise expansion fund and staff welfare and bonus fund are at the discretion of the respective board of directors of the subsidiaries. The statutory surplus reserve fund can be used to offset prior years' losses, if any, and may be converted into registered capital in proportion to their existing shareholding, provided that the remaining balance of the statutory surplus reserve fund after such issue is no less than 25% of registered capital.

18 TRADE PAYABLES, OTHER PAYABLES AND ACCRUALS

(a) Trade payables

	2016 HK$'000	2015 HK$'000
Trade payables	**174,210**	310,967

Ageing analysis of the trade payables based on invoice date is as follows:

	2016 HK$'000	2015 HK$'000
Up to 3 months	**25,901**	87,945
3 to 6 months	**8,999**	40,272
6 to 12 months	**3,186**	72,580
Over 12 months	**136,124**	110,170
	174,210	310,967

The carrying amounts of trade payables are denominated in the following currencies:

	2016 HK$'000	2015 HK$'000
US$	**63,462**	100,252
RMB	**97,274**	179,933
SGD	**13,138**	30,137
Others	**336**	645
	174,210	310,967

(b) Other payables and accruals

	2016 HK$'000	2015 HK$'000
Other payables		
– Third parties	**68,586**	135,938
– Related parties	**1,878**	13,076
Receipt in advance	**1,003**	17,207
Deposits received from sales of asset held for sale *(Note 15)*	**13,394**	–
Accrued payroll and welfare	**15,887**	35,697
Value-added tax payable	**–**	2,273
Other tax and surcharge payables	**8,630**	8,752
	109,378	212,943

18 TRADE PAYABLES, OTHER PAYABLES AND ACCRUALS (Continued)

(b) Other payables and accruals (Continued)

The carrying amounts of other payables and accruals are denominated in the following currencies:

	2016	2015
	HK$'000	HK$'000
US$	**7,768**	8,206
HK$	**23,885**	42,005
RMB	**74,003**	154,593
SGD	**2,304**	3,675
Others	**1,418**	4,464
	109,378	212,943

19 BANK AND OTHER BORROWINGS

	2016	2015
	HK$'000	HK$'000
Non-current		
Bank borrowings *(Note a)*	**37,479**	39,083
Finance lease liabilities *(Note b)*	**2,810**	8,777
Convertible bonds – liability component *(Note c)*	**137,741**	126,886
	178,030	174,746
Current		
Bank borrowings (including overdraft) *(Note a)*	**3,901**	196,765
Finance lease liabilities *(Note b)*	**5,373**	5,363
Convertible bonds – liability component *(Note c)*	**7,359**	7,359
	16,633	209,487
	194,663	384,233

19 BANK AND OTHER BORROWINGS (Continued)

(a) Bank borrowings

Bank borrowings bear average coupon rate of 3.7% as at 31 December 2016 (2015: 3.4%).

As at 31 December 2016, the Group's bank borrowings were under floating interest rates (2015: Same).

The exposure of the Group's bank borrowings to interest rate changes and the contractual repricing dates at the end of the reporting period are as follows:

	2016	2015
	HK$'000	HK$'000
6 months or less	**2,085**	195,328
Over 6 months	**39,295**	40,520
	41,380	235,848

The carrying amounts of bank borrowings approximate to their fair values.

The carrying amounts of the Group's bank borrowings are denominated in the following currencies:

	2016	2015
	HK$'000	HK$'000
US$	**2,085**	56,841
RMB	**–**	130,655
SGD	**39,295**	48,352
	41,380	235,848

19 BANK AND OTHER BORROWINGS (Continued)

(a) Bank borrowings (Continued)

The Group's bank borrowings were all secured.

As at 31 December 2016, banking facilities of approximately HK$41 million were granted by a bank to a subsidiary of the Company, all of which have been utilised by the subsidiary of the Company. The facilities are secured by:

(a) corporate guarantee given by the Company; and

(b) a building of the Group (Note 6).

As at 31 December 2015, banking facilities of approximately HK$534 million were granted by banks to the Company and its subsidiaries, of which approximately HK$236 million have been utilised by subsidiaries of the Company. The facilities are secured by:

(a) certain pledged bank deposits (Note 13);

(b) corporate guarantee given by certain Group companies;

(c) floating charge on all trade receivables of certain subsidiaries of the Company of approximately HK$379 million; and

(d) a building of the Group (Note 6).

The Group has the following undrawn borrowing facilities:

	2016 **HK$'000**	2015 HK$'000
Floating rate		
– Expiring within one year	**–**	298,239

19 BANK AND OTHER BORROWINGS (Continued)

(b) Finance lease liabilities

The rights to the leased assets are reverted to the lessor in the event of default of the lease liabilities by the Group.

	2016 HK$'000	2015 HK$'000
Gross finance lease liabilities – minimum lease payments		
No later than 1 year	**5,719**	6,180
Later than 1 year and no later than 5 years	**2,860**	9,269
	8,579	15,449
Future finance charges on finance leases	**(396)**	(1,309)
Present value of finance lease liabilities	**8,183**	14,140
The present value of finance lease liabilities is as follows:		
No later than 1 year	**5,373**	5,363
Later than 1 year and no later than 5 years	**2,810**	8,777
	8,183	14,140

The finance lease liabilities are denominated in RMB.

As at 31 December 2016, finance lease liabilities were secured by certain machineries of the Group amounting to HK$18,940,000 (2015: HK$22,590,000) (Note 6).

(c) Convertible bonds

On 30 March 2015, the Company issued convertible bonds at a par value of HK$157,000,000, bearing interest at the rate of 5% per annum and payable semi-annually in arrears. The net proceeds of the convertible bonds is HK$153,860,000. The maturity date of the convertible bonds is 30 March 2018. The holders have the right to convert in whole or part of the principal amount of the bond into shares at a conversion price of HK$1.39 per conversion share at any period commencing from 6 months after the date of issuance of the convertible bonds and up to the close of business on the maturity date. The values of the liability component and the equity conversion component were determined at the completion date of the convertible bonds.

19 BANK AND OTHER BORROWINGS (Continued)

(c) Convertible bonds (Continued)

The fair value of the liability component was calculated using a discounted cash flow approach. The key unobservable input of the valuation is the discount rate adopted of 13.6% which is based on market interest rates for a number of comparable convertible bonds denominated in US$ and certain parameters specific to the Group's liquidity risk. The equity component is recognised initially as the difference between the net proceeds from the bonds and the fair value of the liability component and is included in other reserves in equity (Note 17). Subsequently, the liability component is carried at amortised cost.

Adjustment was made to the conversion price from HK$1.39 per conversion share to HK$1.26 per conversion share after the completion of the rights issue on 8 July 2016.

The convertible bonds recognised on 30 March 2015 is calculated as follows:

	HK$'000
Net proceeds of convertible bonds issued on 30 March 2015	153,860
Equity component *(Note 17)*	(28,462)
Liability component at initial recognition	125,398

Movements in convertible bonds are analysed as follows:

	2016 **HK$'000**	2015 HK$'000
Opening amount	**134,245**	125,398
Interest expenses *(Note 27)*	**18,727**	12,804
Interest paid	**(7,872)**	(3,957)
Closing amount	**145,100**	134,245
Less: Non-current convertible bonds – liability component	**(137,741)**	(126,886)
Current portion	**7,359**	7,359

20 DEFERRED INCOME TAX

The analysis of deferred tax assets and liabilities is as follows:

	2016 **HK$'000**	2015 HK$'000
Deferred tax assets:		
– To be recovered within 12 months	**(7,634)**	(13,640)
Deferred tax liabilities:		
– To be realised after 12 months	**6,360**	11,246
Deferred tax liabilities/(assets), net	**(1,274)**	(2,394)

The net movement on the deferred income tax account is as follows:

	2016 **HK$'000**	2015 HK$'000
At 1 January	**(2,394)**	7,563
Exchange difference	**(690)**	(7,850)
Charged/(credited) to consolidated statement of comprehensive income *(Note 28)*	**1,810**	(2,107)
At 31 December	**(1,274)**	(2,394)

20 DEFERRED INCOME TAX (Continued)

The movement in deferred income tax account during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

	Deferred tax liabilities			Deferred tax assets		
	Undistributed profits of a subsidiary established in the PRC *(Note (i))*	Temporary difference on reinstatement	Decelerated tax depreciation	Tax losses *(Note (ii))*	Unrealised profit on inventory	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2015	9,956	8,033	685	(8,052)	(3,059)	7,563
Exchange difference	–	(7,780)	(70)	–	–	(7,850)
Charged/(credited) to consolidated statement of comprehensive income	–	469	(47)	(3,043)	514	(2,107)
At 31 December 2015	9,956	722	568	(11,095)	(2,545)	(2,394)
Exchange difference	–	(498)	(192)	–	–	(690)
Charged/(credited) to consolidated statement of comprehensive income	(3,806)	(224)	(166)	5,002	1,004	1,810
At 31 December 2016	**6,150**	**–**	**210**	**(6,093)**	**(1,541)**	**(1,274)**

Note (i):

According to the new Enterprise Income Tax ("**EIT**") Law, starting from 1 January 2008, a 10% withholding tax will be levied on the immediate holding company established out of the PRC when their PRC subsidiaries declare dividends out of their profits earned after 1 January 2008. A lower withholding tax rate may be applied if there is a tax treaty arrangement between the PRC and the jurisdiction of the foreign immediate holding company.

During the years ended 31 December 2016 and 2015, no deferred tax liabilities were recognised on the unremitted earnings of subsidiaries in the PRC as all the subsidiaries are in loss positions.

The deferred tax liabilities on temporary differences associated with 10% of undistributed profits of a subsidiary established in the PRC derived on or after 1 January 2008 as at 31 December 2016 amounting to HK$6,150,000 (2015: HK$9,956,000).

20 DEFERRED INCOME TAX (Continued)

Note (ii):

Deferred income tax assets are recognised for tax losses carry-forward to the extent that the realisation of the related tax benefit through future taxable profits is probable. The following deferred tax assets had not been recognised in respect of the unused tax losses of certain Group companies, as it was uncertain whether sufficient taxable profits would be available to allow utilisation of the carried forward tax losses, the amounts of the unused tax losses and the relevant deferred tax assets not recognised are as follows:

	2016	2015
	HK$'000	HK$'000
Unused tax losses	**511,510**	439,444
Deferred income tax assets not recognised	**89,967**	78,114

The expiry date for the unused tax losses is as follows:

	2016	2015
	HK$'000	HK$'000
Within 1 year	**396**	888
Within 2 years	**1,384**	396
Within 3 years	**33,054**	1,384
Within 4 years	**96,033**	33,054
Within 5 years	**61,976**	96,033
Without expiry date	**318,667**	307,689
	511,510	439,444

21 OTHER INCOME

	2016	2015
	HK$'000	HK$'000
Rental income	**1,912**	563

22 EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS)

	2016 HK$'000	2015 HK$'000
Wages, salaries and bonus	**90,347**	136,305
Pension costs	**7,147**	11,301
Share options granted to directors, senior management and employees *(Note 26)*	**11,842**	19,888
Other staff benefits	**8,412**	10,619
Less: employee benefit expenses attributable for research and development	**(5,642)**	(9,767)
	112,106	168,346

As at 31 December 2016, there are no forfeited contributions available to offset future retirement benefit obligations of the Group (2015: Nil).

23 OTHER EXPENSES

	2016 HK$'000	2015 HK$'000
Auditor's remuneration		
– Audit services	**3,100**	2,799
– Non-audit services	**250**	–
Communications	**2,341**	2,413
Professional service fee	**4,952**	8,025
Motor vehicle expenses	**3,633**	6,052
Travelling	**19,264**	23,786
Insurance	**1,157**	2,370
Office utilities	**17,567**	13,006
Other tax-related expenses and custom duties *(Note (i))*	**3,480**	4,478
Bank charges	**831**	867
Agency fee	**–**	901
Logistic service fee *(Note (ii))*	**5,025**	–
Provision for impairment of inventories *(Note 11)*	**3,639**	5,553
Provision for impairment of property, plant and equipment *(Note 6)*	**4,120**	–
Provision for impairment of other receivables	**781**	–
Others	**6,256**	8,203
	76,396	78,453

Note (i):

Other tax-related expenses comprise mainly stamp duty and sales tax.

Note (ii):

During the year, the management has relocated the machineries from South America to the Middle East after management's decision to downsize the business of subsidiary in the South America.

24 OTHER (LOSSES)/GAINS, NET

	2016 HK$'000	2015 HK$'000
Losses on disposals of property, plant and equipment *(Note 32(b))*	**(16,891)**	(1,016)
Write off of property, plant and equipment *(Note 6)*	**(1,533)**	(984)
Government grant	**2,031**	265
Gain on disposal of equity interest in a subsidiary	**–**	19,920
Others	**936**	828
	(15,457)	19,013

25 BENEFITS AND INTERESTS OF DIRECTORS

(a) Directors' and chief executive emoluments

The remuneration of every director and the chief executive for the year ended 31 December 2016 is set out below:

Name	Fee HK$'000	Salary HK$'000	Discretionary bonus HK$'000	Housing allowance HK$'000	Estimated money value of other benefits HK$'000	Employer's contribution to a retirement benefit scheme HK$'000	Total HK$'000
Executive director and chief executive							
Wang Jinlong *(Note (i))*	–	835	–	–	32	55	922
Executive director							
Zhao Jindong *(Note (ii))*	–	731	–	–	590	55	1,376
Non-executive director							
Lee Tommy	–	135	–	–	32	–	167
Ma Hua	–	135	–	–	32	–	167
Ko Po Ming	–	225	–	–	32	–	257
Independent non-executive director							
Tong Hin Wor	–	153	–	–	32	–	185
Wong Lap Tat Arthur	–	255	–	–	32	–	287
He Shenghou	–	153	–	–	32	–	185
Chief executive							
Zeng Weizhong *(Note (iii))*	–	70	–	–	151	3	224
	–	2,692	–	–	965	113	3,770

25 BENEFITS AND INTERESTS OF DIRECTORS (Continued)

(a) Directors' and chief executive emoluments (Continued)

The remuneration of every director and the chief executive for the year ended 31 December 2015 is set out below:

Name	Fee	Salary	Discretionary bonus	Housing allowance	Estimated money value of other benefits	Employer's contribution to a retirement benefit scheme	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Executive director and chief executive							
Wang Jinlong	–	850	–	–	53	51	954
Executive director							
Zhao Jindong	–	743	–	–	451	45	1,239
Non-executive director							
Lee Tommy	–	135	–	–	53	–	188
Ma Hua	–	135	–	–	53	–	188
Ko Po Ming	–	225	–	–	53	–	278
Independent non-executive director							
Tong Hin Wor	–	153	–	–	53	–	206
Wong Lap Tat Arthur	–	255	–	–	53	–	308
He Shenghou	–	153	–	–	53	–	206
	–	2,649	–	–	822	96	3,567

Other benefits include share options to directors and chief executive.

During the year, no emoluments, no retirement benefits, payments or benefits in respect of termination of directors' services were paid or made, directly or indirectly, to the directors; nor are any payable (2015: Nil). No consideration was provided to or receivable by third parties for making available directors' services (2015: Nil). There are no loans, quasi-loans or other dealings in favour of the directors, their controlled bodies corporate and connected entities (2015: None).

No director of the Company had a material interest, directly or indirectly, in any significant transactions, arrangements and contracts in relation to the Group's business to which the Company was or is a party that subsisted at the end of the year or at any time during the year (2015: None).

25 BENEFITS AND INTERESTS OF DIRECTORS (Continued)

(a) Directors' and chief executive emoluments (Continued)

Note:

(i) Resigned as chief executive on 25 April 2016.

(ii) Appointed as chief executive on 25 April 2016 and resigned on 1 December 2016.

(iii) Appointed as chief executive on 1 December 2016.

The five individuals whose emoluments were the highest in the Group for the year include one (2015: one) director whose emolument is reflected in the analysis presented above. The emoluments payable to the remaining four (2015: four) individuals during the year are as follows:

	2016	2015
	HK$'000	HK$'000
Salary	**2,722**	2,423
Employer's contribution to pension scheme	**128**	96
Share-based payment	**3,162**	8,840
	6,012	11,359

The emoluments fell within the following bands:

	Number of individuals	
	2016	2015
Emoluments band		
Nil to HK$1,000,000	**1**	–
HK$1,000,001 – HK$1,500,000	**1**	2
Over HK$1,500,000	**2**	2
	4	4

26 SHARE-BASED PAYMENTS

The Company adopted two share option schemes (the "**Schemes**"), namely the pre-IPO share option scheme ("**Pre-IPO Share Option Scheme**") and share option scheme ("**Share Option Scheme**").

The purposes of the Schemes are to attract, retain and motivate the grantees to strive for future developments and expansion of the Group. The principal terms of the Pre-IPO Share Option Scheme are substantially the same as the terms of the Share Option Scheme.

Pre-IPO Share Option Scheme

The Pre-IPO Share Option Scheme was approved and adopted on 20 December 2010, pursuant to which selected participants may be granted options to subscribe for shares as indentures or rewards for their service rendered to the Group and any entity in which any member of the Group holds any equity interest.

The Pre-IPO Share Option Scheme was supplemented and amended by an addendum on 25 September 2012, where the Company shall issue the relevant number of ordinary shares instead of non-voting shares at the revised exercise price on or after the listing of the Company. Share options were granted to selected senior management and employees of the Company.

The Pre-IPO Share Option Scheme is valid and effective for a period of 10 years commencing on the adoption date of the scheme. There is no vesting period for the Pre-IPO Share Option Scheme and it is exercisable within 5 years from the date of grant. All the outstanding options are expired in December 2015.

The fair value of options granted determined by using the Binomial model ranges from HK$24,411 to HK$34,141 per option (after capitalisation issue: from HK$0.33 to HK$0.46 per option). The significant inputs into the model were weighted average exercise price of HK$65,649 (after capitalisation issue: HK$0.88), volatility of 47%, dividend yield of 1%, expected option life of 5 years and an annual risk-free interest rate of 3.5%. Expected volatility is assumed to be based on historical volatility of the comparable companies.

Possibility of forfeiture is taken into account by reference to the historical employee turnover for the estimation of the fair value of options granted. The expected post-vesting exit rate is zero.

Adjustments were made to the exercise prices and the number of share options which were outstanding after the completion of the rights issue (Note 16).

26 SHARE-BASED PAYMENTS (Continued)

Pre-IPO Share Option Scheme (Continued)

Details in the exercise prices and the movement of the number of share options outstanding and exercisable as at 31 December 2015 are as follow:

	Exercise price per share option		Number of share options			
	Before adjustment for rights issue HK$	After adjustment for rights issue HK$	As at 1 January 2015	Adjustment for rights issue	Expiry	As at 31 December 2015
Group of participants *(Note)*						
A	0.78	0.76	1,924,273	41,827	(1,966,100)	–
C	1.09	1.07	371,214	8,069	(379,283)	–
Total			2,295,487	49,896	(2,345,383)	–
Weighted average exercise price (HK$)			0.83	–	–	–

Note:

The participants of the Pre-IPO Share Option Scheme are divided into four groups based on the date of joining the Group.

During the years ended 31 December 2016 and 2015, no share-based payment expense for the Pre-IPO Share Option Scheme were recognised in the consolidated statement of comprehensive income.

26 SHARE-BASED PAYMENTS (Continued)

Share Option Scheme

The Share Option Scheme was approved and adopted on 18 February 2013, pursuant to which selected participants may be granted options to subscribe for shares as indentures or rewards for their service rendered to the Group. Share options were granted to directors, selected employees and a consultant of the Company.

The Share Option Scheme is valid and effective for a period of 10 years commencing on the adoption date of the scheme. Details of share options granted under the Share Option Scheme are as follows:

	Share options by grant date			
	29 April 2014	**29 May 2015**	**26 October 2016**	**1 December 2016**
Number of ordinary shares issued upon exercise:				
– Directors	800,000	2,500,000	6,000,000	–
– Senior management	12,100,000	26,000,000	20,000,000	17,000,000
– Employees	7,100,000	31,200,000	42,000,000	–
Exercise price	HK$2.60	HK$1.30	HK$0.53	HK$0.53
Contractual option term	Five years	Seven years	Seven years	Seven years
Expiry date	28 April 2019	28 May 2022	25 October 2023	30 November 2023

For the share options granted on 29 April 2014, the vesting period of the share options ranges from one to three years. All the options are conditional in which only one-third and two-third are vested and exercisable after one and two years from the grant date, respectively. The remaining options are vested and exercisable after three years from the grant date.

For the other share options granted, the vesting period of the share options ranges from one to five years. All the options are conditional in which one-fifth is vested and exercisable on every anniversary since the grant date of the respective share options.

The Group does not have a legal or constructive obligation to repurchase or settle the options in cash.

26 SHARE-BASED PAYMENTS (Continued)

Share Option Scheme (Continued)

The fair values of services received in return for share options granted are measured by reference to the fair value of share options granted. The range of fair value of options granted determined by using the Binomial model and significant inputs into the model were as follows:

	Share options by grant date			
	29 April 2014	29 May 2015	26 October 2016	1 December 2016
Range of fair value of options granted (HK$)	0.87 – 0.88	0.62 – 0.66	0.19 – 0.25	0.23 – 0.26
Weighted average share price at the grant date (HK$)	2.44	1.28	0.52	0.53
Expected volatility *(Note)*	49.72%	56.49%	47.97%	47.75%
Expected option lifes	5 years	7 years	7 years	7 years
Dividend yield	1.15%	Nil	Nil	Nil
Annual risk-free interest rate	1.42%	1.37%	0.75%	1.18%
Expected post-vesting exit rate	10.82% – 13.23%	6.49% – 17.32%	7.94% – 18.19%	7.94%

Note:

Expected volatility is assumed to be based on historical volatility of the comparable companies.

Possibility of forfeiture is taken into account by reference to the historical employee turnover for the estimation of the fair value of options granted.

Adjustments were made to the exercise prices and the number of share options which were outstanding after the completion of the rights issue (Note 16).

The variables and assumptions used in estimating the fair value of the share options were the directors' best estimates. Change in subjective input assumptions can materially affect the fair value.

26 SHARE-BASED PAYMENTS (Continued)

Share Option Scheme (Continued)

Details in the exercise prices and the movement of number of share options outstanding and exercisable as at 31 December 2016 are as follow:

	Exercise price per share option		Number of share options				
	Before adjustment for rights issue during the year HK$	After adjustment for rights issue during the year HK$	As at 1 January 2016	Granted during the year	Adjustment for rights issue	Forfeited during the year	As at 31 December 2016
Grant date							
29 April 2014	2.55	2.38	**19,617,336**	**–**	**1,381,356**	**(306,521)**	**20,692,171**
29 May 2015	1.30	1.21	**59,200,000**	**–**	**4,148,899**	**(4,028,846)**	**59,320,053**
26 October 2016	N/A	0.53	**–**	**68,000,000**	**–**	**–**	**68,000,000**
1 December 2016	N/A	0.53	**–**	**17,000,000**	**–**	**–**	**17,000,000**
Total			**78,817,336**	**85,000,000**	**5,530,255**	**(4,335,367)**	**165,012,224**
Weighted average exercise price (HK$)							
Grant date							
29 April 2014			**2.55**	**–**	**–**	**–**	**2.38**
29 May 2015			**1.30**	**–**	**–**	**–**	**1.21**
26 October 2016			**–**	**0.53**	**–**	**–**	**0.53**
1 December 2016			**–**	**0.53**	**–**	**–**	**0.53**

26 SHARE-BASED PAYMENTS (Continued)

Share Option Scheme (Continued)

Details in the exercise prices and the movement of number of share options outstanding and exercisable as at 31 December 2015 are as follow:

	Exercise price per share option		Number of share options				
	Before adjustment for rights issue during the year HK$	After adjustment for rights issue during the year HK$	As at 1 January 2015	Granted during the year	Adjustment for rights issue	Forfeited during the year	As at 31 December 2015
Grant date							
29 April 2014	2.61	2.55	19,500,000	–	423,857	(306,521)	19,617,336
29 May 2015	N/A	1.30	–	59,700,000	–	(500,000)	59,200,000
Total			19,500,000	59,700,000	423,857	(806,521)	78,817,336
Weighted average exercise price (HK$)							
Grant date							
29 April 2014			2.61	–	–	–	2.55
29 May 2015			–	1.30	–	–	1.30

During the year ended 31 December 2016, share-based payment expense of HK$11,842,000 for the Share Option Scheme was recognised in the consolidated statement of comprehensive income (2015: HK$19,888,000) (Note 22).

27 FINANCE INCOME AND COSTS

	2016 HK$'000	2015 HK$'000
Interest expenses:		
– Bank borrowings	**(4,554)**	(29,832)
– Convertible bonds *(Note 19(c))*	**(18,727)**	(12,804)
– Finance lease liabilities	**(689)**	(568)
– Net foreign exchange losses on financing activities *(Note 29)*	**(585)**	(8,286)
Finance costs	**(24,555)**	(51,490)
Finance income:		
– Interest income from bank deposits	**486**	1,990
– Gain on net monetary position	**–**	1,380
Finance income	**486**	3,370
Finance costs, net	**(24,069)**	(48,120)

28 INCOME TAX EXPENSE/(CREDIT)

	2016 HK$'000	2015 HK$'000
Current tax		
– PRC enterprise income tax	**–**	161
– Singapore corporate tax	**2,242**	2,319
	2,242	2,480
Under/(over) provision in prior years		
– Hong Kong profits tax	**–**	(922)
– Singapore corporate tax	**103**	–
	103	(922)
Deferred tax *(Note 20)*	**1,810**	(2,107)
Income tax expense/(credit)	**4,155**	(549)

(i) Hong Kong profits tax

Subsidiaries established in Hong Kong are subject to Hong Kong profit tax at a rate of 16.5% (2015: 16.5%) during the year.

28 INCOME TAX EXPENSE/(CREDIT) (Continued)

(ii) PRC enterprise income tax (“EIT“)

On 16 March 2007, the National People’s Congress approved the Corporate Income Tax Law of the People’s Republic of China (the new “**CIT Law**”). The new CIT Law was effective from 1 January 2008. Pursuant to detailed measures of the new CIT Law, the EIT rate of both domestic enterprise and foreign investment enterprise is 25% from 1 January 2008 onwards.

As at 31 December 2016, Petro-king Oilfield Technology Limited was approved by relevant local tax bureau authorities as the High and New Technological Enterprise, and was entitled to a preferential EIT rate of 15% (2015: 15%) during the year.

The High and New Technological Enterprise qualification is subjected to be renewed every 3 years. Companies are required to meet certain criteria such as qualified research & development expenses reaching a designated percentage of total revenue, employing certain number of scientific technology and research and development personnel and having certain percentage of income from sale of new/high technology products etc.

(iii) Singapore corporate tax

Subsidiaries established in Singapore are subject to Singapore corporate tax at a rate of 17% for the year ended 31 December 2016 (2015: 17%).

The tax on the Group’s loss before tax differs from the theoretical amount that would arise using the domestic tax rates applicable to profit or loss of the Group entities as follows:

	2016 **HK$’000**	2015 HK$’000
Loss before income tax	**(441,192)**	(392,308)
Tax calculated at domestic tax rates applicable to profit/loss in the respective entities	**(22,951)**	(53,439)
– Under/(over) provision for prior years	**103**	(922)
– Income not subject to tax	**(3,971)**	(5,202)
– Expenses not deductible for tax purposes	**22,705**	15,781
– Reversal of withholding tax on undistributed profits of a subsidiary established in the PRC	**(3,806)**	–
– Tax losses for which no deferred tax assets was recognised	**12,075**	43,233
Income tax expense/(credit)	**4,155**	(549)

The weighted average applicable tax rate was 5% (2015: 14%). The decrease is primarily due to changes in the profitability of the group companies in the respective jurisdictions.

29 FOREIGN EXCHANGE LOSSES, NET

	2016	2015
	HK$'000	HK$'000
Foreign exchange losses	**(14,896)**	(86,101)
Net foreign exchange losses on financing activities *(Note 27)*	**(585)**	(8,286)
	(15,481)	(94,387)

30 LOSS PER SHARE FOR THE LOSS ATTRIBUTABLE TO OWNERS OF THE COMPANY

	2016	2015 (As restated)
Loss attributable to owners of the Company (HK$'000)	**(443,353)**	(384,342)
Weighted average number of ordinary shares in issue (Number of shares in thousand)	**1,536,351**	1,252,673
Basic loss per share (HK cents)	**(29)**	(31)
Diluted loss per share (HK cents)	**(29)**	(31)

Basic loss per share is calculated by dividing the loss attributable to owners of the Company by the weighted average number of ordinary shares issued during the year.

Diluted loss per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. Potential ordinary shares are dilutive when, and only when, their conversion to ordinary shares would decrease earnings per share or increase loss per share.

Diluted loss per share for the year ended 31 December 2016 was the same as basic loss per share since all potential ordinary shares are anti-dilutive (2015: Same) as both the conversion of potential ordinary shares in relation to the share options and the conversion of convertible bonds have an anti-dilutive effect to the basic loss per share.

On 8 July 2016, the Group completed rights issue of 398,463,000 ordinary shares at HK$0.31 per rights share on the basis of three rights shares for every ten existing shares held on 29 June 2016. The basic and diluted loss per share for the year ended 31 December 2015 have been restated to take into account the right shares issued at a discount on market price subsequent to the year ended 31 December 2015. The weighted average number of shares outstanding was retrospectively increased to reflect the discount in the rights issue. For the year ended 31 December 2015, the weighted average number of ordinary shares in issue were 1,223,346,000 before restatement.

31 DIVIDEND

The board of directors of the Company does not recommend the payment of final dividend for the year ended 31 December 2016 (2015: Nil).

32 NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS

(a) Cash (used in)/generated from operations

	2016 **HK$'000**	2015 HK$'000
Loss before income tax	**(441,192)**	(392,308)
Adjustments for:		
– Depreciation *(Note 6)*	**93,721**	86,266
– Amortisation *(Notes 7 and 8)*	**1,768**	1,712
– Share-based payment *(Note 22)*	**11,842**	19,888
– Gain on net monetary assets *(Note 27)*	**–**	(1,380)
– Provision for impairment of trade receivables, net *(Note 12)*	**16,077**	182,148
– Provision for impairment of inventories *(Note 23)*	**3,639**	5,553
– Provision for impairment of other receivables *(Note 23)*	**781**	–
– Provision for impairment of property, plant and equipment *(Note 23)*	**4,120**	–
– Loss on disposals of property, plant and equipment *(Note b)*	**16,891**	1,016
– Write off of property, plant and equipment *(Note 24)*	**1,533**	984
– Gain on disposal of equity interest in a subsidiary *(Note 24)*	**–**	(19,920)
– Impairment loss of goodwill *(Note 7)*	**213,859**	–
– Impairment loss of an available-for-sale financial asset *(Note 9)*	**28,868**	–
– Net finance costs	**23,484**	41,214
– Foreign exchange gain	**(2,936)**	(7,577)
	(27,545)	(82,404)
Changes in working capital:		
– Inventories	**66,418**	97,113
– Trade and other receivables, deposits and prepayments	**72,787**	81,401
– Trade, other payables and accruals	**(226,922)**	(28,377)
Cash (used in)/generated from operations	**(115,262)**	67,733

32 NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

(b) Proceeds from disposal of property, plant and equipment

In the consolidated statement of cash flows, proceeds from disposals of property, plant and equipment comprise:

	2016 **HK$'000**	2015 HK$'000
Net book amount *(Note 6)*	**31,387**	3,222
Loss on disposals of property, plant and equipment *(Note 24)*	**(16,891)**	(1,016)
Proceeds from disposals of property, plant and equipment	**14,496**	2,206

33 CONTINGENCIES

	2016 **HK$'000**	2015 HK$'000
Performance bonds *(Note (i))*	**1,616**	5,235
Litigation claim *(Note (ii))*	**26,972**	28,799

Note (i):

Performance bonds related to the guarantees provided by the banks to the Group's customers in respect of the sales of tools and equipment or provision of services in overseas projects. In the event of non-performance, the customers might call upon the performance bonds and the Group would be liable to the banks in respect of the performance bonds provided.

Note (ii):

During 2014, a contracting party initiated legal proceedings against the Group alleging a failure to provide stipulated amount of drilling works under the contracts entered in 2012 and 2013 and claimed for a total amount of RMB25,000,000. The case was concluded on 1 June 2015 in which the judgement of the court is in favour of the Group and has dismissed the claim of the contracting party. The contracting party is in the process of appeal. As at 31 December 2016, restricted deposits of HK$5,581,000 are held at bank as reserve under litigation claim (2015: HK$5,959,000) (Note 14).

34 COMMITMENTS

(a) Capital commitments

Capital commitments outstanding at the balance sheet date are as follows:

	2016 HK$'000	2015 HK$'000
Land use rights		
Contracted but not provided for	–	13,551
Property, plant and equipment		
Contracted but not provided for	–	2,743

(b) Operating lease commitments – Group as lessee

The Group leases various offices, warehouses and a land in Singapore under non-cancellable operating lease agreements. The lease terms are between 1 and 29 years, and the majority of lease agreements are renewable at the end of the lease period at market rate.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2016 HK$'000	2015 HK$'000
No later than 1 year	5,384	7,915
Later than 1 year and no later than 5 years	7,176	8,940
Later than 5 years	11,131	16,445
	23,691	33,300

35 RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or excise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or joint control. Members of key management and their close family member of the Group are also considered as related parties.

The following is a summary of the significant transactions carried out between the Group and its related parties in the ordinary course of business during the years ended 31 December 2016 and 2015, and balances arising from related party transactions as at 31 December 2016 and 2015.

Name	**Relationships**
Mr. Wang Jinlong	Director
Mr. Zhao Jindong	Director
Mr. Lee Lap	Substantial shareholder
Mr. Zeng Weizhong	Senior management
Ms. Sun Jinxia	Senior management
Mr. Pan Yuxin	Senior management
Mr. Shu Wa Tung Laurence	Senior management
Mr. Lin Jingyu	Senior management
Mr. Zhang Taiyuan	Senior management
Mr. Yuan Fucun	Senior management
Mr. Ren Wensheng	Senior management

(a) Key management compensation

Key management personnel are deemed to be the members of the board of directors and senior management of the Company who have the responsibility for the planning and controlling the activities of the Group.

	2016 **HK$'000**	2015 HK$'000
Salaries and other short-term employee benefits	**7,407**	7,689
Share-based payments	**5,912**	10,460
	13,319	18,149

35 RELATED PARTY TRANSACTIONS

(b) Amounts from/(to) related parties

	2016	2015
	HK$'000	HK$'000
Amounts due from related parties *(Note 12) (Note (i))*	**470**	1,181
Amounts due to related parties *(Note 18) (Note (ii))*	**(1,878)**	(13,076)

As at 31 December 2016 and 2015, the balances are interest-free, unsecured, receivable or repayable on demand and approximate to their fair values.

Note (i):

The balances mainly comprise of advance to senior management.

Note (ii):

The balances mainly comprise of expenses paid on behalf by the Directors and senior management.

36 SUBSIDIARIES

As at 31 December 2016, the Company has direct and indirect interests in the following principal subsidiaries:

Name	Interest held Directly	Interest held Indirectly	Principal activities and place of operation	Country of incorporation, kind of legal entity and date of incorporation	Particulars of issued share capital/ registered capital
Petro-king Holding Limited	100%	–	Investment holding in Hong Kong	Hong Kong, Limited liability company 13 September 2007	HK$10,000 issued share capital
Petro-king International Company Limited	–	100%	Provision for oilfield project tools and services and consultancy services in the PRC, Russia and the Middle East, etc.	Hong Kong, Limited liability company 14 July 2003	HK$5,000,000 issued share capital
深圳市百勤石油技術有限公司 (Petro-king Oilfield Technology Limited)	–	100%	Provision for oilfield project tools and services and consultancy services in the PRC, etc.	The PRC, Limited liability company (wholly foreign owned enterprise) 26 April 2002	Registered capital of RMB76,000,000
德州嘉誠石油裝備有限公司 (Dezhou Jiacheng Oil Tools Co., Limited)	–	100%	Dormant in the PRC	The PRC, Limited liability company 3 April 2007	Registered capital of RMB10,000,000
Wellsharp Group Limited	–	100%	Dormant in BVI	BVI, Limited liability company 11 April 2008	100 ordinary shares at no par value for 1 US$ each
Hero Gain Investment Limited	–	100%	Investment holding in BVI	BVI, Limited liability company 1 July 2010	1 ordinary share at no par value for 1 US$ each

36 SUBSIDIARIES (Continued)

As at 31 December 2016, the Company has direct and indirect interests in the following principal subsidiaries: (Continued)

Name	Interest held Directly	Interest held Indirectly	Principal activities and place of operation	Country of incorporation, kind of legal entity and date of incorporation	Particulars of issued share capital/ registered capital
Turbodrill Technology Pte. Limited	–	100%	Manufacturing and repairing of oilfield and gasfield machinery and equipment in Singapore	Singapore, Limited liability company 1 September 2011	1 ordinary share of 1 US$ each
Petro-king Oilfield Technology (South America) Holdings Limited	–	100%	Investment holding in Venezuela	BVI, Limited liability company 16 March 2012	1,000,000 ordinary shares of 1 US$ each
Sheraton Investment Worldwide Ltd	–	100%	Investment holding in BVI	BVI, Limited liability company 9 June 2010	1,000 ordinary shares at no par value for 1 SGD each
星油能源科技(深圳)有限公司 (Sun Oil Technology Co., Ltd)	–	100%	Manufacturing and trading of oilfield tools and equipment in the PRC	The PRC, Limited liability company 8 April 2011	Registered capital of US$1,000,000
H-Star Petrotech Company Limited	–	100%	Investment holding in Hong Kong	Hong Kong, Limited liability company 10 December 2010	HK$10,000 issued share capital
Star Petrotech Pte Ltd.	–	100%	Manufacturing and repairing of other oilfield and gasfield machinery and equipment in Singapore	Singapore, Limited liability company 4 February 2009	400,000 ordinary shares at no par value for 1 SGD each
Petro-king Oilfield Technology Holdings Limited De Venezuela, C.A.	–	100%	Provision of oilfield technology and services in Venezuela	Venezuela, Limited liability company 17 September 2012	1,000,000 ordinary share of Bs4.3 each

36 SUBSIDIARIES (Continued)

As at 31 December 2016, the Company has direct and indirect interests in the following principal subsidiaries: (Continued)

Name	Interest held Directly	Interest held Indirectly	Principal activities and place of operation	Country of incorporation, kind of legal entity and date of incorporation	Particulars of issued share capital/ registered capital
百勤石油技術(惠州)有限公司	–	100%	Provision of oilfield tools and equipment technology services and research and development in the PRC	The PRC, Limited liability company (wholly foreign owned enterprise) 21 September 2012	Registered capital of US$5,000,000
江蘇百勤完井技術有限公司	–	100%	Manufacturing and repairing of other oilfield and gasfield machinery and equipment in the PRC	The PRC, Limited liability company 19 March 2013	Registered capital of RMB5,000,000
北京百勤油服科技有限公司	–	100%	Oilfield technology promotion and provision for consultancy services in the PRC	The PRC, Limited liability company 26 June 2013	Registered capital of RMB500,000
百勤(重慶)油氣工程技術服務有限公司	–	100%	Trading of tools and equipment and provision for consultancy service in the PRC	The PRC, Limited liability company (wholly foreign owned enterprise) 28 August 2013	Registered capital of RMB20,000,000
Turbodynamics Pte. Ltd.	–	100%	Manufacturing and repairing of oilfield and gasfield machinery and equipment in Singapore	Singapore, Limited liability company 1 August 2013	Registered capital of 100 ordinary shares of SGD1 each
Petro-king International Holdings Limited	–	100%	Dormant in Hong Kong	Hong Kong, Limited liability company 13 May 2013	HK$10,000 issued share capital
百勤石油(深圳)有限公司	–	100%	Dormant in the PRC	The PRC, Limited liability company 8 November 2013	Registered capital of RMB10,000,000

36 SUBSIDIARIES (Continued)

As at 31 December 2016, the Company has direct and indirect interests in the following principal subsidiaries: (Continued)

Name	Interest held Directly	Interest held Indirectly	Principal activities and place of operation	Country of incorporation, kind of legal entity and date of incorporation	Particulars of issued share capital/ registered capital
Petro-king Group Middle East Corporation FZE	–	100%	Trading of oilfield tools and equipment in the Middle East	Dubai, Limited liability company, 9 June 2014	100 shares of AED1,000 each
Petro-king International Australia PTY. LTD.	–	100%	Trading of oilfield tools and equipment in the Australia	Australia, Limited liability company 6 January 2014	1 ordinary shares of AUD1 each
百勤鑽井技術(惠州)有限公司	–	100%	Research & Development of Petroleum engineering equipment and repair & maintenance of drilling and well completion equipment	The PRC, Limited liability company 7 January 2014	Registered capital of US$1,000,000
PT. Petro Synergy Industry	–	41% *(Note)*	Manufacture, assembly, maintenance, repair and inspection of oil and gas tools and equipment; Oilfield Services; and oilfield material & equipment supply and/or rental	Indonesia, Limited liability company 8 October 2014	Registered capital of IDR46,044,000,000

36 SUBSIDIARIES (Continued)

As at 31 December 2016, the Company has direct and indirect interests in the following principal subsidiaries: (Continued)

Name	Interest held Directly	Interest held Indirectly	Principal activities and place of operation	Country of incorporation, kind of legal entity and date of incorporation	Particulars of issued share capital/ registered capital
星油能源科技(惠州)有限公司(惠州)	–	100%	Research & Development of Petroleum engineering equipment and repair & maintenance of drilling, well completion equipment and Petroleum engineering equipment. Imports, exports, wholesale and deputize Petroleum engineering equipment	The PRC, Limited liability company 25 August 2014	Registered capital of USD1,000,000
Turbodynamics USA Inc.	–	100%	Manufacturing and repairing of oilfield and gasfield machinery and equipment in north america	The United States of America, Limited liability company 28 April 2015	Registered capital of USD1,000
百勤特米奧(深圳)投資基金管理有限公司	–	100%	Provision for financial services in the PRC	The PRC, Limited liability company 25 February 2016	Registered capital of RMB10,000,000
惠州市百勤實業有限公司	–	100%	Property holding in the PRC	The PRC, Limited liability company 5 July 2016	Registered capital of RMB13,000,000
Sunshine Oilfield Technology LLC	–	100%	Trading of oilfield tools and equipment in the Middle East	The United Arab Emirates, Limited liability company 30 March 2016	Registered capital of AED300,000

36 SUBSIDIARIES (Continued)

As at 31 December 2016, the Company has direct and indirect interests in the following principal subsidiaries: (Continued)

Name	Interest held Directly	Interest held Indirectly	Principal activities and place of operation	Country of incorporation, kind of legal entity and date of incorporation	Particulars of issued share capital/ registered capital
河南省百勤能源科技有限公司	–	100%	Research & Development of Petroleum engineering equipment and repair & maintenance of drilling, well completion equipment in the PRC	The PRC, Limited liability company 26 December 2016	Registered capital of RMB5,000,000
深圳百勤金盆地能源技術有限公司	–	50%	Research & Development of Petroleum engineering equipment and repair & maintenance of drilling, well completion equipment in the PRC	The PRC, Limited liability company 8 July 2016	Registered capital of RMB20,000,000

Note:

(i) Although the Group owns less than half of the equity interests in the company, it is able to gain power over more than one half of the voting rights and consolidates the company.

(ii) On 30 November 2016, the Group obtained the remaining 50% of the equity interest of joint venture (i.e. 百勤特米奧(深圳)投資基金管理有限公司) upon the divestment of the other joint venture partner. The Group effectively holds 100% equity interest in the company and the company become a wholly owned subsidiary of the Group.

37 STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY

Statement of financial position of the Company

	As at 31 December	
	2016	2015
	HK$'000	HK$'000
ASSETS		
Non-current asset		
Investments in subsidiaries	**1,083,814**	868,412
Current assets		
Other receivables and prepayments	**117,981**	489,083
Cash and cash equivalents	**528**	266
Total current assets	**118,509**	489,349
Total assets	**1,202,323**	1,357,761
EQUITY AND LIABILITIES		
Equity attributable to owners of the Company		
Share capital	**2,001,073**	1,879,966
Other reserves	**68,265**	56,423
Accumulated losses	**(1,023,391)**	(726,301)
Total equity	**1,045,947**	1,210,088
LIABILITIES		
Non-current liability		
Convertible bonds – liability component	**137,741**	126,886
Current liabilities		
Other payables and accruals	**11,276**	13,428
Convertible bonds – liability component	**7,359**	7,359
	18,635	20,787
Total liabilities	**156,376**	147,673
Total equity and liabilities	**1,202,323**	1,357,761

The statement of financial position of the Company was approved by the Board of Directors on 23 March 2017 and was signed on its behalf.

Mr. Wang Jinlong
Director

Mr. Zhao Jindong
Director

37 STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY (Continued)

Reserve movement of the Company

	Share-based payment reserve HK$'000	Convertible bonds reserve HK$'000	Retained earnings/ (accumulated losses) HK$'000
At 1 January 2015	8,073	–	4,258
Loss for the year	–	–	(730,559)
Issuance of convertible bonds	–	28,462	–
Recognition of share-based payment	19,888	–	–
At 31 December 2015	27,961	28,462	(726,301)
At 1 January 2016	**27,961**	**28,462**	**(726,301)**
Loss for the year	**–**	**–**	**(297,090)**
Recognition of share-based payment	**11,842**	**–**	**–**
At 31 December 2016	**39,803**	**28,462**	**(1,023,391)**

38 EVENTS AFTER BALANCE SHEET DATE

(i) On 10 January 2017, the Group completed the sale of the land use right with carrying amount of HK$13,570,000 to an independent third party. The sale proceeds of the land use right amounted to HK$20,017,000, with deposits received amounted to HK$13,394,000 as at 31 December 2016.

(ii) On 12 January 2017, the Group completed the sale of certain machineries of carrying amount totalling HK$15,830,000 to an independent third party at consideration of HK$17,155,000 (Note 15).

(iii) On 22 January 2017, the Group entered into an agreement to dispose certain machineries to an independent third party at the consideration of approximately HK$20,829,000, which is the same as the carrying value of these machineries as at 31 December 2016. The transfer will be completed within one year.